



DATE: February 24, 2010

TO: Honorable Mayor and City Councilmembers

FROM: Public Works Department

SUBJECT: **ACCEPTANCE OF THE 2009 SOLID WASTE BENCHMARK STUDY; APPROVAL OF A 5.4 PERCENT RATE REDUCTION IN SOLID WASTE RATES; APPROVAL TO TRANSFER THE SAVINGS TO THE RATE STABILIZATION FUND TO OFFSET FUTURE RATE INCREASES; APPROVAL OF AMENDMENT 4 TO THE SOLID WASTE FRANCHISE AGREEMENT WITH WASTE MANAGEMENT OF NORTH COUNTY TO REFLECT THE RATE REDUCTION**

SYNOPSIS

Staff and the Integrated Waste Commission recommends that the City Council accept the Solid Waste Benchmark Study; approve a 5.4 percent rate reduction in solid waste rates paid by the City to Waste Management of North County (WMNC), pursuant to the study; approval to appropriate the 5.4 percent rate reduction savings to the Rate Stabilization Fund to offset future rate increases; approve Amendment 4 to the solid waste franchise agreement with WMNC to reflect the rate reduction; and authorize the City Manager to execute the amendment.

BACKGROUND

The City's contract with Waste Management provides for a benchmarking process approximately every five years, to study and adjust the rates to be within the three lowest city rates in the San Diego Region with comparable service. The last benchmark process completed and effective in July of 2005, resulted in a 4.5 percent decrease of solid waste rates payable by the City to Waste Management. This initial decrease in rates resulted in the City establishing a "Rate Stabilization Fund" in 2005. The purpose of this fund was to automatically offset any rate increases forwarded by Waste Management, such as the contractual obligation to provide for yearly CPI rate increases during interim years, not to exceed 5 percent per adjustment. Currently this Rate Stabilization Fund has been exhausted of all its funds due to these annual CPI rate adjustments to Waste Management and the City's commitment to offset rate increases to the public.

ANALYSIS

HF&H Consultants was retained by the City to complete the 2009 Benchmark study (HF&H Final Report attached). As explained in the HF&H report as well as in the City's Franchise agreement with WMNC, the purpose of the Benchmark process is to periodically adjust Oceanside rates, and those of other cities in San Diego County (excluding City of San Diego), so that the adjusted rates for each city reflect comparable service levels. The study compares similar or equal services provided to other San Diego cities and evaluates that data to identify the three lowest rates for comparable services in the County. The end result of this study is a decrease in WMNC's compensation, so that WMNC's compensation matches that of the contractor serving the city with the third lowest adjusted rates in the County. The 5.4 percent rate adjustment in compensation will be effective retroactive to July 1, 2009.

Monthly Transfer - CPI Adjusted Services = Total Monthly Transfer (rate stabilization fund)

\$78,000 (-) \$2,675 (=) \$75,325

Total yearly Savings to Rate Stabilization Fund for 5.4% adjustment = \$900,000.

Waste Management will remit \$485,095.81 to recover the savings from payments made between July 1, 2009, and January 29, 2010.

The Benchmark Study was conducted in two phases. Phase I adjusts the published residential and commercial rates of the various cities in the county to reflect actual effective compensation to solid waste services providers for comparable service. Phase II adjustments were then applied to Oceanside and the five cities with the lowest rates at the end of Phase I in order to better account for differences in service levels provided.

The Phase II adjustments account for the real difference in the level of service provided to Oceanside and each of the other comparable cities. These Phase II adjustments are services that are considered abnormal compared to the scope of services typically contained in other franchise agreement for other cities. In the 2009 Benchmark Study HF&H Consultants allowed for the following Phase II service area adjustments:

- Bulky item collection \$642,795 (Annual Costs)
 - Unlimited Bulky Item Collection for residential and multi-family units
 - Includes discarded household waste matter which is too large to be placed in a covered container, including large household appliance (White Goods), furniture, carpets, mattresses, and similar large items (Excludes Construction and Demolition debris, remodeling, refurbishing materials).

- Residential clean-up events \$126,846 (Annual Costs)
 - 3 two week clean-up events annually
 - Includes Christmas Tree clean-up event in January

- Beach and litter can pickup \$218,253 (Annual Costs)
 - W.M. services the beaches and city cans 7 full days a week in the summer and 5.5 days a week in the winter.
- Roll-off service provided to Oceanside facilities \$162,645 (Annual Costs)
 - W.M. provides and services roll-off containers at City facilities
- Household Hazardous Waste events \$236,340 (Annual Costs)
 - W.M. provides all labor and services necessary to operate the Household Hazardous Waste Facility located at 2880 Industry St. every other Saturday by appointment for Oceanside residents
- Yard waste and recycling container costs \$360,382 (Annual Costs)
 - W.M. provides new and replacement yard waste carts and recycling crates for Oceanside residents.
- Collection of Oceanside street sweeping materials \$138,592 (Annual Costs)
 - W.M. collects street sweeping debris from city yard (city street sweepers dump debris loads in end trailers for W.M. servicing) and then hauls the debris to Orange County for disposal

Total Annual cost for Phase II Service Adjustments: \$1,885,853

FISCAL IMPACT

The 2009 Benchmark Study will result in a 5.4 percent rate reduction to the majority of services effective July 1, 2009. Staff is recommending that the savings of approximately \$78,000 per month from this 5.4 percent rate reduction be appropriated to the Assigned Rate Stabilization account number 731.3020.0027 to be used exclusively to offset CPI increases due to Waste Management annually during interim years.

Upon City Council approval of recommendation, Waste Management will remit to the City \$485,095.81 to recover the savings from payments made July 1, 2009, to January 29, 2010. This payment would be deposited into the Assigned Rate Stabilization Account.

CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

COMMITTEE OR COMMISSION REPORT

At its November 24, 2009 meeting, the Integrated Waste Commission (IWC) approved the results of the Benchmark Study, thus approving the 5.4 percent rate reduction and the placing of the funds in a Rate Stabilization Fund.

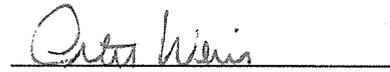
RECOMMENDATIONS

Staff and the Integrated Waste Commission recommend that the City Council accept the 2009 Solid Waste Benchmark Study; approve a 5.4 percent rate reduction in the solid waste rates paid by the City to Waste Management of North County (WMNC), pursuant to the study; approval to appropriate the 5.4 percent rate reduction savings to the Rate Stabilization Fund to offset future rate increases; approve Amendment 4 to the solid waste franchise agreement with WMNC to reflect the rate reduction; and authorize the City Manager to execute the amendment.

PREPARED BY:


Colleen Foster
Management Analyst

SUBMITTED BY:


Peter A. Weiss
City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager

Don Hadley, Deputy City Manager

Joseph Arranaga, Deputy Public Works Director

Teri Ferro, Financial Services Director



Exhibit A: HF&H 2009 Solid Waste Benchmark Report (10/20/09)

Exhibit B: Amendment 4 to Solid Waste Franchise Agreement

CITY OF OCEANSIDE

**AMENDMENT NUMBER FOUR (4) TO SOLID WASTE SERVICE
AGREEMENT
BETWEEN THE CITY OF OCEANSIDE AND
WASTE MANAGEMENT OF NORTH COUNTY**

This fourth (4th) Amendment ("Amendment 4") to the Franchise Agreement for Solid Waste, Recyclables, and Green Waste Services made between CITY OF OCEANSIDE, ("CITY") and WASTE MANAGEMENT OF NORTH COUNTY, Inc., ("CONTRACTOR") is entered into this _____ day of _____, 2010.

WHEREAS, CITY and CONTRACTOR entered into an agreement dated June 14, 2000, for solid waste, recyclables, and green waste services, (hereinafter, the "Agreement").

WHEREAS, CITY and CONTRACTOR have amended the Agreement by Amendment to Solid Waste Service Agreement dated January 9, 2002, and by Amendment Number two (2) to the Solid Waste Franchise Agreement dated July 2, 2003, and Amendment three (3) to the Solid Waste Franchise Agreement dated May 18, 2005.

WHEREAS, CITY and CONTRACTOR are desirous of amending the Agreement to comply with Article 8, Contractors Compensation, sections 8.1 through 8.7, Benchmarking Adjustment.

WHEREAS, Section 8.3 of the Agreement provides for the adjustment of CONTRACTOR'S Compensation through a benchmarking process, every fifth (5) year, to ensure that the CITY's rates remain within the three (3) lowest rates of cities in San Diego County for comparable services.

NOW, THEREFORE, IN CONSIDERATION THEREOF, THE CITY AND CONTRACTOR AGREE AS FOLLOWS:

1. The Service Fees due to the CONTRACTOR shall be reduced by 5.4% percent, effective July 1, 2009
2. The Service Fee reduction shall remain in effect until the next annual CPI adjustment
3. CONTRACTOR shall resume CPI (cost of living) periodic fee adjustments as provided in section 8.2 of the Agreement.

This Amendment 4 incorporates all of the amended terms and conditions of the Agreement and encompasses the entire understanding of the parties. In all other respects, the Agreement dated June 14, 2000, as amended, remains in full force and effect.

IN WITNESS THEREOF of parties hereto for themselves, their executors, administrators, successors, and assigns do herein agree to the performance of this Amendment.

Southern California Market Area Manager for
Waste Management of North County, Inc.
CONTRACTOR

CITY OF OCEANSIDE
CITY

BY: [Signature] vice President
NAME/TITLE

BY: _____

BY: Jason Rose
Southern California Market Area Manager for
Waste Management of North County, Inc.

APPROVED AS TO FORM

[Signature] ASST
City Attorney

NOTARY ACKNOWLEDGMENTS OF CONTRACTOR MUST BE ATTACHED

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

County of SAN DIEGO }

On FEBRUARY 15, 2010 before me, JEAN ZANCO NOTARY PUBLIC,
Date Here Insert Name and Title of the Officer

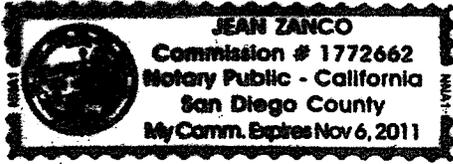
personally appeared JASON ROSE
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature [Handwritten Signature]
Signature of Notary Public



Place Notary Seal Above

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: AMENDMENT 4

Document Date: 2/15/2010 Number of Pages: _____

Signer(s) Other Than Named Above: _____

Capacity(ies) Claimed by Signer(s)

Signer's Name: JASON ROSE

- Individual
- Corporate Officer — Title(s): VICE PRESIDENT
- Partner — Limited General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing: WASTE MGMT

Signer's Name: _____

- Individual
- Corporate Officer — Title(s): _____
- Partner — Limited General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: _____



Signer Is Representing: _____



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October 20, 2009

Ms. Colleen Foster
Management Analyst
City of Oceanside
c/o City Clerk's Office
300 North Coast Highway
Oceanside, CA 92054

Re: Phase II Solid Waste Rate Benchmarking Results

Dear Ms. Foster:

This memorandum summarizes HF&H's results from the 2009 rate benchmarking analysis of Waste Management of North County (WMNC), the Oceanside franchised solid waste hauler. The benchmarking analysis involves adjusting the reported solid waste published rates of the various cities within San Diego County (excluding the City of San Diego) to reflect actual effective compensation to service providers for the provision of comparable service. Adjustments were made to the cities' reported rates as of July 1, 2009 for factors such as franchise fees, street sweeping fees, AB939 fees, household hazardous waste funding, and, other factors so that they are relatively comparable with respect to type and level of service and non-service related items.

EXECUTIVE SUMMARY

This memorandum summarizes the methodology, assumptions and results of the Oceanside 2009 Solid Waste Rate Benchmarking Study. The purpose of the process is to periodically adjust Oceanside rates, and those of other cities in San Diego County, so that the adjusted rates for each city reflect only the compensation to each city's service provider for the comparable level of service. The end result is an adjustment in WMNC's compensation, either an increase or decrease, so that WMNC's compensation matches that of the contractor serving the city with the third lowest adjusted rates in the County. The adjustment in compensation will be effective retroactive to July 1, 2009. **The results of our review found Oceanside's rates were 5.4% higher than those of the third lowest city, National City (see Table 4); therefore, HF&H recommends reducing the City's solid waste rates by 5.4%.**



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BACKGROUND

The 2000 analysis served as the basis for sole source negotiation of the current service agreement between Oceanside and WMNC. The benchmarking process stems from an offer by WMNC to reduce compensation in return for a new sole source franchise agreement, as follows:

“(The City shall) renegotiate the existing agreements with Waste Management of North County using a competitive benchmarking process to ensure that the Oceanside receives the best combination of rates and services. The benchmark criteria will ensure that the Oceanside’s rates are among the three lowest in San Diego County for comparable service.”

The benchmarking process is now codified in Article 8 of the 2000 franchise agreement, and in an exhibit to the agreement that contains the 2000 summary report referenced above. While the process is outlined in some detail, it is intended to be flexible in accommodating changes in operations, services, and other circumstances. Section 8.3.B provides that Oceanside and WMNC will conduct a benchmarking analysis during specified years.

The benchmarking process consists of two stages:

Phase I involves adjusting the published rates of the various cities to reflect actual effective compensation to service providers for provision of comparable service. Adjustments were made for factors such as franchise fees, AB 939 fees, Household Hazardous Waste (HHW) funding, rate stabilization funding, etc. In addition, there was an effort to adjust for comparability of service between cities that provide can service (in some cases unlimited) and cities providing cart service. The purpose of Phase I is to identify the cities with the five lowest adjusted rates for Phase II comparison with the Oceanside, and to eliminate the other eleven cities from further consideration.

Phase II involves comparing WMNC’s adjusted rates, effectively the compensation for providing service to Oceanside with the adjusted rates for the cities ranked second, third, and fourth lowest at the close of Phase I. If the cities are closely bunched, the Phase II comparisons may also include the first and/or fifth ranked cities. Phase II adjustments address areas in which WMNC either provides a service that is not provided in other cities, or provides an unusually high level of a service as compared to other Phase II cities. Among the services requested for adjustment for Phase II for 2009 were bulky item collections, clean-up events, beach and litter can collection, Oceanside roll-of service, household hazardous waste, provision of yard waste carts and recycling crates, street sweeping disposal, and the use of a “stinger” truck for collection from tight spaces at multi-family residences.



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OVERVIEW OF 2009 METHODOLOGY

Jurisdictions Included in the Analysis

In 2000, the parties decided to exclude the City of San Diego and the County of San Diego from the analysis due to issues of comparability. Thus, the analysis addressed a total of 17 cities, including Oceanside. The 2009 analysis used the same group of 17 cities.

Unadjusted Items

Consistent with the 2000 methodology, we did not adjust the following items:

Transfer and Disposal Costs. Given the context in which WMNC originally made the offer to match the rates of the third lowest city in the county, Oceanside determined in 1999 that differences in transfer and disposal costs would not be adjusted.

Differences in Curbside Recycling Programs. All of the cities include curbside recycling within residential rates. Individual cities provide a range of services, including variations in materials collected and operation of recycling buy-back and/or drop-off centers.

Mandatory and Subscription Service. Subscription service can affect the economics of collection significantly in areas of dispersed population, but for cities, the level of participation, even with subscription service, is relatively high.

Effective Date of Rates. A variety of factors influence how frequently rates are set, and the circumstances under which they are adjusted. Rates are in part a product of negotiation, and we cannot quantitatively account for these differences. The 2009 analysis uses the published rate schedule for each city with rates effective as of July 1, 2009. Rates for a majority of the cities were set in July 2009. Also, several cities periodically adjust their rates on an unscheduled basis. The 2009 analysis did not otherwise account for the timing with which rates were last adjusted by each city.

PHASE I ANALYSIS

Phase I involves adjusting the published residential and commercial rates of the various cities to reflect actual effective compensation to service providers for comparable service. Adjustments were made for:

- Franchise fees
- AB 939 fees
- Storm water management funding
- HHW funding
- Rate stabilization funding
- Billing costs
- Street sweeping funding



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SELECTION OF RATES

As was done in 2000 and 2005, HF&H reviewed the residential and commercial rates and the relative number of customer accounts and recommended the rates to benchmark. The goal was to select residential and commercial rates representing a substantial majority of accounts in each customer class. The selected Oceanside rates are shown below, with the number of accounts.

Residential Rates

- Single family unlimited refuse, recycling and green waste service once a week - Rate M170 (\$19.44), 36,418 accounts.
- Single family unlimited refuse and recycling service once a week, without green waste collection - Rate X170 (\$16.30), 5,807 accounts.

Commercial/Multi-Family Bin Rates

- Three-yard bins collected once per week - Rate M274 (\$94.76), 748 accounts.
- Three-yard bins collected twice per week - Rate M275 (\$171.55), 797 accounts.
- Three-yard bins collected three times per week - Rate M276 (\$248.34), 635 accounts.

Phase I Adjustments

Phase I adjustments were applied to the comparable rates for all 17 cities (including Oceanside). The rate adjustments are summarized below.

1. Franchise Fee, AB 939, Stormwater, and Other City Fees. HF&H adjusted rates for all cities by subtracting franchise fees and other pass through fees such as AB 939, stormwater, and administrative fees that represent revenues to a city rather than its contractor. The adjustments were made on a percentage basis, except for cases in which the fee is stated as a dollar amount. In the latter cases, we contacted appropriate staff of the applicable city to determine how to convert the dollar figure to a percentage.
2. Contract Administration. Oceanside retains a portion of collected revenue for administering the collection agreement between the Oceanside and WMNC. Based on data provided by Oceanside's Utilities Department, Oceanside's rates were adjusted to exclude the cost of administering the contract.

At the time of the 2000 Study, Oceanside also collected monies towards rate stabilization, in the amount of \$0.69 per monthly single-family charge. Oceanside no longer separately collects revenue for this purpose.

3. HHW Fees. In 2000, adjustments were made to the Oceanside's single family rates for WMNC's contractual obligations to make annual payments to Oceanside for HHW

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support. Initially, Phase I for 2005 included an \$0.11 reduction for HHW (based on an estimated contractual escalation from the \$0.09 used in the 2000 study) applied to the Oceanside's two single family (M170, X170) rates. Later, as discussed with regard to Phase II, it was determined that rather than make a deduction of \$0.11 during Phase I, the equivalent revenue would be credited against WMNC's Phase II HHW costs. Thus, we did not adjust Oceanside's rates for HHW program costs during Phase I, but HHW fees were adjusted for other cities' rates, as applicable.

4. **Billing Services.** Adjustment were made for the cost of residential customer billing to assure that billing service, whether provided as a contracted obligation of the hauler, through the city, or both (as is the case of Oceanside), was clearly identified and accounted for. An adjustment of \$0.12 per month was made based on the prorated revenue share of cost related to Oceanside billing. This amount was then also deducted from residential rates in all cities in which the hauler bills all customers.

The results of Phase I are summarized in Table 1 below.

Table 1
Phase I Summary - Initial Adjustments

Rank	City	Revenue	\$ 956,730	%
1	Carlsbad	\$ 880,487	(76,243)	-8.7%
2	National City	\$ 937,247	(19,483)	-2.1%
3	Escondido	\$ 956,730	-	0.0%
4	Santee	\$ 990,296	33,566	3.4%
5	San Marcos	\$ 1,005,112	48,382	4.8%
6	El Cajon	\$ 1,005,215	48,485	4.8%
7	Poway	\$ 1,011,390	54,660	5.4%
8	La Mesa	\$ 1,012,534	55,804	5.5%
9	Lemon Grove	\$ 1,019,061	62,331	6.1%
10	Coronado	\$ 1,019,178	62,448	6.1%
11	Chula Vista	\$ 1,040,203	83,473	8.0%
12	Imperial Beach	\$ 1,041,230	84,500	8.1%
13	Del Mar	\$ 1,053,317	96,587	9.2%
14	Encinitas	\$ 1,058,873	102,143	9.6%
15	Solana Beach	\$ 1,062,906	106,176	10.0%
16	Vista	\$ 1,085,493	128,763	11.9%
17	Oceanside	\$ 1,094,300	137,570	12.6%

Phase II Adjustments

Phase II rate adjustments were to be applied only to Oceanside and to the five cities with the lowest rates at the end of Phase I to better account for differences in the level of services provided. The goal of Phase II is to determine what percentage adjustment to WMNC's rates would ultimately be required to match the adjusted rates of the third lowest city.

For the 2005 benchmarking, Oceanside approved eight service areas for inclusion in analysis of cost associated with extra service. The eight areas in which WMNC provided



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Oceanside a relatively high level of service included bulky item collection, residential clean up events, beach and litter can pickup, roll-off service provided to Oceanside facilities, household hazardous waste events, purchase of yard waste and recycling containers, collection of Oceanside street sweeping materials, and mixed paper recycling.

For the 2009 analysis, WMNC also requested eight service area adjustments for Phase II. However, the eight areas were the same as the 2005 analysis except for the exclusion of the mixed paper recycling program and the addition of costs to purchase and operate a smaller collection vehicle (a "stinger" truck) to collect material from new multi-family residences with limited access. However, HF&H disallowed the addition of the "stinger" truck program costs because the services did not meet the criteria as a "significant change", as defined in Section 8.3.A of the Agreement. It should be noted that WMNC agrees with removing the "stinger" truck program costs from this benchmarking analysis and will work with City staff to establish a separate rate just for those multi-family customers that require the use of the "stinger" truck. Section 8.3A of the franchise agreement identifies Phase II adjustments as "Significant Changes", and defines them as follows:

"Significant Changes" ... means services provided by Contractor that are not normally provided by a comparison city or cities, or that are provided by a comparison city or cities but not by the Contractor, and that, based on readily available data and the professional opinion of the independent consultant, cost in excess of...\$100,000... annually to provide. Significant Changes may include additions, deletions, or other modifications in existing services, or may consist of a substantial change in the means or methods by which an existing service is provided.

Therefore, HF&H's Phase II adjustments were limited to the following seven service area adjustments:

1. Bulky item collection;
2. Residential clean-up events;
3. Beach and litter can pickup;
4. Roll-off service provided to Oceanside facilities;
5. Household hazardous waste events;
6. Yard waste and recycling container costs; and,
7. Collection of Oceanside street sweeping materials.

Phase II adjustments were applied to the five lowest cities at the close of Phase I. The purpose of the Phase II adjustments was to account for real differences in the level of service provided to



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Oceanside, and to each of the other remaining cities, by its contractor. The Phase II adjustments were based on extensive discussions with Oceanside and WMNC staff, and were determined based on the fact that the level of effort provided by WMNC to Oceanside for several types of service were clearly unusual, compared with the scope of services typically contained in the franchise agreements of other cities within San Diego County. The Phase II adjustments reduced Oceanside's rates associated with relatively high levels of service provided by WMNC.

The cost information for each of the items adjusted in Phase II was provided to HF&H by WMNC, presented as total monthly cost divided into major components. HF&H reviewed the information and worked with WMNC to make necessary modifications, particularly in how certain franchise costs were to be allocated to these specific services. The parties agreed to allocate WMNC's costs to rate categories based on the actual percentage of customers (or revenues) associated with the benchmarked rates. The costs were then allocated to the selected customer rates categories (residential, multi-family, and commercial) and calculated as an individual rate impact (\$/month/customer) based on appropriate revenue or customer allocation methods. WMNC's total annual cost information for each of the Phase II adjustments (including WMNC's profit) is presented in Table 2 followed by a brief description of the service being provided.

Table 2
Phase II Adjustments - Annual Costs by Program

Program	Value
Bulky Item Collection	\$ 642,795
Cleanup Events	126,846
Beach and Litter Can	218,253
Roll-off Services to City Facilities	162,645
Household Hazardous Waste	236,340
Green Waste and Recycling Containers	360,382
Street Sweeping Material Collection	138,592
Stinger Truck (\$53,820)	Not adjusted
TOTAL	\$ 1,885,853

1. Bulky Item Collection. WMNC provides Oceanside an unusually high level of service (the equivalent of 3.8 full time employees) for the collection of bulky waste. This service includes unlimited on-call pick-up of residential loads of bulky waste, and unlimited pick-up of bulky waste in public areas. HF&H reduced residential rates (both single and multi-family) for Oceanside, and made adjustments to other cities based on the level of bulky item collection service provided.

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2. Cleanup Events. WMNC holds three two-week clean-up events per year in Oceanside. Two weeks in the spring, two weeks in the fall and a two week holiday tree clean up event in January. These events require 2.75 full-time bulky-item drivers, 1 full-time roll-off driver, and 4 swing drivers per event. In addition, WMNC hires eight temporary labor helpers the first week of each event and four temporary workers during the second week of each event (except for holiday tree clean up which requires eight temporary workers for both weeks). We reduced Oceanside's residential rates (both single and multi-family), and made adjustments for other cities based on comparative data for the time spent providing holiday tree collection events and other clean-up events.
3. Beach and Litter Can. WMNC provides the equivalent of 1.6 full-time employees dedicated to collection of refuse from beach containers and litter cans in public areas. We reduced Oceanside's residential (both single and multi-family) and commercial rates, and made adjustments for other cities based on comparative data for the number of litter containers serviced.
4. Roll-off Service to City Facilities. These services are provided to Oceanside and include provision of roll-off containers at various Oceanside-designated sites for collection and disposal of Oceanside solid waste and green waste. Substantial disposal costs, in addition to equipment and labor costs, are incurred by WMNC in collecting approximately 260 loads per year from 15 permanent roll-off boxes located throughout the Oceanside. HF&H reduced Oceanside's residential (both single and multi-family) and commercial rates, and made adjustments for other cities based on comparing data for the number of roll-off containers serviced.
5. Household Hazardous Waste. WMNC operates a household hazardous waste center every other Saturday throughout the year. WMNC staff prepares for the events and cleans up after the events. The event is run by a third-party, Clean Harbors. WMNC pays Clean Harbors a per-car fee to run the event and dispose of the items in accordance with the regulations. HF&H reduced Oceanside's residential (both single and multi-family) and commercial rates, and made adjustments for other cities based on comparing data on the number of roll-off containers serviced.
6. Green Waste and Recycling Containers. Oceanside's single family rate was adjusted, based on the cost incurred by WMNC to provide yard waste carts and recycling crates mandated by the City Council. These costs were not originally included in the rates. Adjustments were also made to other cities in which their hauler is also responsible for providing yard waste carts and recycling crates at no additional cost.
7. Street Sweeping Material Collection. Oceanside does the street sweeping. The material collected during street sweeping is dumped into containers at Oceanside's maintenance yard. WMNC collects the containers 2 to 3 times per week and transports them to Orange County for disposal. HF&H reduced Oceanside's residential (both single and

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multi-family) and commercial rates, and made adjustments for other cities based on whether the city's hauler provides the service, and if so, how often.

8. Stinger Truck. WMNC has purchased and operates a smaller collection vehicle (a "stinger" truck) to collect material from new multi-family residences with limited access. No adjustment made.

Other Unadjusted Services

There are certain other types of service provided to Oceanside by WMNC that are difficult to quantify relative to how they are provided to the other cities, and adjustments were not made for them during the benchmarking process. These services include:

- Bin collection service provided to city buildings and parks.
- Provision of a recycling coordinator.
- Provision of community support.
- Phone book recycling.
- Advertising campaigns.
- Neighborhood clean-up events.
- Payment of audit and consulting fees.

Many of these services are also provided by the companies providing service to each of the other cities, but the relative level of service provided may be higher or lower than that provided to Oceanside by WMNC.

Rate Revenue Comparison

In comparing the results of the adjustments, reviewing a large table of rates for 17 cities will not provide a clear picture of the results. Residential rates may be relatively low and commercial rates relatively high for one jurisdiction, and the reverse may be true for another. Residential one-, two-, and three-can refuse rates will vary significantly among jurisdictions. Commercial bin rates (usually presented as a matrix of bin sizes and frequency of pick-ups per week) will vary significantly among jurisdictions.

The goal was to present the results of the rate comparisons in a format that is most useful to Oceanside decision-makers. HF&H's approach for summarizing such diverse rate information and providing a total revenue value for each jurisdiction included:

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1. Use of the actual number of residential and commercial customers in Oceanside for each of the six rate categories selected for benchmarking. (For customer counts see earlier discussion of rates codes identified for benchmarking.)
2. Calculation of hypothetical total annual service revenue for each jurisdiction based on applying each city's adjusted rates to Oceanside's customer base.
3. The result of Steps 1 and 2 is total service revenue for each jurisdiction based on rate adjustments for comparable service levels spread across a fixed customer base.
4. The final result is that the lowest total service revenue represents the lowest rates in the county, and each city can be ranked on a relative basis.

Use of a revenue model is an effective tool for comparing the cost impacts of various rates among jurisdictions because it helps to balance the differences between individual rates and among customer classes.

The results of Phase II are summarized in Table 3 and Table 4 below.

Table 3
Phase II Summary - Final Adjusted Benchmarked Service Revenue

JURISDICTION	<u>Lowest</u>	<u>Second Lowest</u>	<u>Third Lowest</u> National City	<u>Fourth Lowest</u>	<u>Fifth Lowest</u>	<u>Sixth Lowest</u>
	Carlsbad	Santee	Escondido	Oceanside	San Marcos	
Single Family Refuse Service	\$554,905	\$617,840	\$576,850	\$610,047	\$638,950	\$637,070
Multi Family Bin	\$157,394	\$149,980	\$173,291	\$162,660	\$165,755	\$184,141
<u>Commercial Bin</u>	<u>\$166,252</u>	<u>\$163,769</u>	<u>\$186,657</u>	<u>\$174,609</u>	<u>\$185,248</u>	<u>\$194,549</u>
TOTAL REVENUE (\$/mo)	\$878,552	\$931,589	\$936,799	\$947,316	\$989,953	\$1,015,760

Table 4
Phase II Summary of Final Comparison

	Monthly Revenues (\$)			Increase / (Decrease) in Current Oceanside Revenue Necessary to Close Gap (% of Current Revenues)
	Oceanside	Third Lowest City	City Name	
Phase I	1,094,300	956,730	Escondido	-12.6%
Phase II				
Single-Family	638,950	576,850		-9.7%
Multi-Family	165,755	173,291		4.5%
Commercial Bins	185,248	186,657		0.8%
TOTAL	989,953	936,799	National City	-5.4%

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RESULTS

Phase I

For Phase I, the cities were ranked from the lowest to the highest rates. Carlsbad, National City, Escondido, Santee, and San Marcos were, respectively, the five cities with the lowest rates. Oceanside was ranked 17th. At the close of Phase I, Oceanside's rates would require a reduction of about 12.6% to be equivalent to those of the then third lowest city, Escondido (see Table 1).

Phase II

WMNC proposed adjustments for the seven service areas described above. Oceanside and HF&H staff reviewed the requested adjustments in detail (which amounted to \$2.2 million annually) and provided WMNC with a memo of questions regarding the data and assumptions. WMNC then prepared a response, and after changes were made following conference calls with Oceanside, WMNC and HF&H staff. WMNC's revised request amounted to \$1.9 million annually. In accordance with the Agreement, Phase II adjustments were made to the rates of the five lowest cities. The Phase II adjustments were made to Oceanside's rates, and to the rates for the cities with the lowest (Carlsbad), second lowest (Santee), third lowest (National City), fourth lowest (Escondido), the fifth lowest becomes Oceanside, with San Marcos rounding out the analyzed cities. Table 3 provides the benchmarked service revenues for Oceanside and the five lowest cities at the conclusion of Phase II. Again, the service revenues are presented as relative percentages with the service revenue for the third lowest city, now National City, set to 100%.

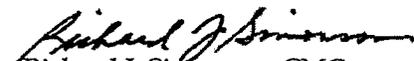
At the close of Phase II, Oceanside's rates were 5.4% higher than those of the third lowest city, National City.

* * *

HF&H appreciates the assistance provided by Oceanside staff and WMNC management during our benchmark study. Should you have any questions, please call me at 925/977-6957.

Very truly yours,

HF&H CONSULTANTS, LLC


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