

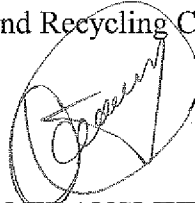
CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: August 24, 2012

TO: Honorable José Huizar, Chair
Honorable Dennis P. Zine, Vice Chair
Honorable Tony Cárdenas, Member
Honorable Richard Alarcón, Member
Honorable Paul Koretz, Member
Energy & Environment Committee

Honorable Richard Alarcón, Chair
Honorable José Huizar, Member
Honorable Paul Koretz, Member
Honorable Paul Krekorian, Member
Ad Hoc on Waste Reduction and Recycling Committee

FROM: Enrique C. Zaldivar, Director
Bureau of Sanitation



SUBJECT: BUREAU OF SANITATION TRANSMITTAL – CONSULTANT REPORT (HF&H) “CITY OF LOS ANGELES COMMERCIAL SOLID WASTE COST AND FEE ANALYSIS”

Please find attached the HF&H Report entitled “City of Los Angeles Commercial Solid Waste Cost and Fee Analysis, dated August 24, 2012. In response to Council questions, the Bureau of Sanitation commissioned HF&F to study the cost (rates) of providing waste collection services under exclusive franchise, non-exclusive franchise, and permit systems to try to draw a “cause and effect” analysis to the rates as a result of transitioning to a franchise system. The Bureau also instructed HF&H to identify the range of fees charged by other local municipalities and to describe how “rate caps” have been used by other municipalities. The report found that customer rates in the City of Los Angeles (City) cannot be directly nor readily compared to rates of other municipalities, whether they operate under an exclusive, non-exclusive or permit system. The study also found that “city (franchise) fees”, typically a percentage of gross receipts, charged to waste haulers by local municipalities range from 2% to 35%.

Rates between jurisdictions, whether exclusive or non-exclusive, cannot fairly be compared to each other. In cities with non-exclusive franchise systems the rates are controlled by each hauler, and each hauler often charge different rates for the same service. A single rate structure in a non-exclusive system cannot be calculated. Even rates between cities with exclusive franchise systems, with posted rates, cannot be compared to each other. Each rate structure is configured differently between cities with exclusive systems. For example, some rate structure may include recycling while others charge an additional fee. In addition, the charged fees for optional services, such as the need for bins to be pulled from hard to access properties, are inconsistent between rate structures. Due to the many variation in rate structures, a fair comparison of rates, that takes all cost components into consideration, is extremely difficult to perform.

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As an option to evaluating rates charges to customers, HF&H took a global look at the cost of providing waste services in various cities. This global approach summed the total of all receipts collected by waste haulers (charged to their customers) and divided it by the total waste collected to determine a citywide cost per ton. As this method includes all rates charged, it attempts to normalize the variations in the different rate structures. It is important to note that this method does not reflect a customer rate but a way to make a global comparison between cities and the various franchise systems. HF&H found that even with this global approach, the cost per ton varied significantly within any given system. HF&H did find that the current cost per ton of waste collection in the City falls within the median and average range of other cities with either exclusive or non-exclusive arrangements. This means that the current average cost of collecting a ton waste in the City is similar to the median cost for other cities independent of the waste system. This does not, however, make any correlation to what would happen to individual customer rate if the City moves to a different system. The only way for the City to determine a final rate structure, under an exclusive system where the City establishes a rate structure, is through a request for proposal process (RFP), where proposed rates can be compared to existing baseline rates.

There are a variety of fees charged under exclusive, non-exclusive and permit systems. The fees can include franchise fees, AB939 fees, administrative fees, as well as other fees. HF&H found that most of the fees are charged as percentage of gross receipts. HF&H also found that percentage charged by each municipality varies greatly. These fees can range in total from 2% to 35%. Very few franchise systems have been implemented since the passage of Prop 26 in November 2010.

Rate caps are used by some jurisdictions where a small number of haulers are operating under a "non-exclusive" or "limited non-exclusive" system. The term "rate cap" means a municipality has established a maximum rate structure. Franchised haulers can continue to negotiate rates with their customers up to the maximum rates set in the "rate cap". This allows cities to set maximum rates, where competition is limited, without setting specific rates. The City of Carson has two waste haulers and currently uses "rate caps".

cc: Michael Espinosa, City Clerk's Office
June Lagmay, City Clerk

City of Los Angeles
Commercial Solid Waste Cost and Fee Analysis

FINAL REPORT
August 24, 2012

August 24, 2012



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August 24, 2012

Mr. Daniel Meyers
City of Los Angeles
Bureau of Sanitation
Solid Resources Citywide Recycling Division
1149 South Broadway
Los Angeles, California 90015

Commercial Solid Waste Cost and Fee Analysis

Dear Mr. Meyers:

HF&H has completed our Commercial Solid Waste Cost and Fee Analysis for the City of Los Angeles. We have included a summary of the study objectives of this analysis and the corresponding findings in the table below. The detailed findings are included in Section 2 of this report.

Summary of Study Objectives and Findings

Study Objective	Findings
<p>Objective #1: Survey Los Angeles County cities to compare the cost of exclusive and non-exclusive services.</p>	<p>Finding #1A: The rates in non-exclusive cities cannot be verified, since there is no official rate schedule. Each hauler may charge a different rate in a non-exclusive system, and sometimes the same hauler will charge different rates to different customers for the same level of service, depending on negotiations with each customer.</p>
	<p>Finding #1B: Comparing customer rates in different cities is not a reliable method for comparing the relative cost of exclusive and non-exclusive service arrangements. The net cost per ton collected, excluding city fees, is a more reasonable method of comparison.</p>
	<p>Finding #1C: Based on the net cost per ton collected, excluding city fees, the median cost of commercial service in the cities surveyed with separate exclusive commercial franchise systems and non-exclusive commercial service arrangements is similar.</p>



Mr. Daniel Meyers
August 24, 2012
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Study Objective	Findings
	Finding 1D: The City of Lawndale experienced a commercial cost reduction of approximately 25% when it converted from a non-exclusive commercial permit system to an exclusive franchise in 2011.
Objective 2: Perform a franchise fee analysis to identify the low, median, and high franchise fee percentages in Los Angeles County cities, and estimate the amount that a franchise fee might generate in the City of Los Angeles.	Finding #2: The franchise fees in other Los Angeles County cities range from 2% to 27% of gross receipts. The median franchise fee of 10% is estimated to generate approximately \$24.9 million annually in the City of Los Angeles. Total city fees including franchise fees and other solid waste fees retained by cities, range from 2% to 35% with a median of 14%.
Objective 3: Describe the "rate caps" previously used in the cities of Beverly Hills and Santa Clarita (this was in response to a City of Los Angeles Ad Hoc Committee request at its April 10, 2012 meeting to address the potential applicability of "rate caps" (or maximum rates) for the City of Los Angeles).	Finding #3: A "rate cap" or maximum rate might be considered in a non-exclusive system when a small number of haulers are authorized to provide service in order to ensure reasonable customer rates in a system with limited competition. The City of Santa Clarita had three non-exclusive commercial haulers and the City of Beverly Hills had five non-exclusive commercial haulers when they implemented rate caps; both of those systems have since been converted to exclusive franchises. The City of Carson currently has two commercial haulers in a non-exclusive commercial system with a maximum rate approved by the City.

We appreciate the opportunity to serve the City. If you have any questions, please do not hesitate to contact me at (949) 251-8902, or via email at lezzet@hfh-consultants.com.

Very truly yours,
HF&H CONSULTANTS, LLC

Laith B. Ezzet, CMC
Senior Vice President

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SECTION 1: STUDY BACKGROUND AND OBJECTIVES

Background

The City of Los Angeles ("City") is evaluating alternative service arrangements for collecting solid waste from multi-family and business establishments (together referred to as "commercial" collection in this report). The City is considering various system alternatives, including:

- 1) "Non-exclusive" service arrangements in which licensed, permitted, or contracted waste haulers compete for customers based on price and service, and individual customers negotiate their own rates with the various haulers;
- 2) "Exclusive" service arrangements in which one or more haulers provide service in the City, each in an exclusive area or zone, with no overlapping collection routes. In this option, rates are established by contract with the City and all customers pay the same rate for the same level of service.

Previous Study

HF&H completed a report for the City of Los Angeles titled "Solid Waste Franchise Assessment" dated January 23, 2012, that:

- Described the current commercial solid waste service arrangements in the City of Los Angeles, including the number of haulers providing service and the market concentration among the largest haulers;
- Documented the existing service arrangements in cities throughout Los Angeles County and the larger cities in the State of California;
- Described the various service options;
- Summarized the advantages and disadvantages of the alternatives; and,
- Identified implementation issues, including timelines to implement the various options.

Follow-up Cost Study Objectives

In April of 2012 HF&H was subsequently requested to perform a follow-up study. The overall goal of the study was to evaluate cost impacts of alternative commercial service arrangements. The specific study objectives were to:

- 1) Survey Los Angeles County cities to compare the cost of exclusive and non-exclusive services.
- 2) Perform a franchise fee analysis to identify the low, median, and high franchise fee percentages in Los Angeles County cities, and estimate the amount that a franchise fee might generate in the City of Los Angeles.
- 3) Describe the "rate caps" previously used in the cities of Beverly Hills and Santa Clarita (this was in response to a City of Los Angeles Ad Hoc Committee request at its April 10, 2012 to address the potential applicability of "rate caps" (or maximum rates) for the City of Los Angeles).

SECTION 2: STUDY FINDINGS

This section describes our findings and is organized by study objective.

Objective #1: Survey Los Angeles County cities to compare the cost of exclusive and non-exclusive services.

Finding #1A: The rates in non-exclusive cities cannot be verified, since there is no official rate schedule. Each hauler may charge a different rate in a non-exclusive system, and sometimes the same hauler will charge different rates to different customers for the same level of service, depending on negotiations with each customer.

In a non-exclusive system, individual customers negotiate their solid waste service prices with the waste hauler. The rate negotiated for a particular level of service, such as a 3-cubic yard bin collected once per week, could vary depending on:

- The negotiating skill of the customer;
- The pricing structure of the particular waste hauler with whom the customer is negotiating;
- The unique service characteristics of the customer's location, such as the push-out distance of the container from the storage location to the point of collection;
- Unique container access conditions, such as underground parking garages where containers may be stored requiring a special collection vehicle to position the container for the refuse truck;
- Special services required, such as locking containers.

In cities with an exclusive franchise, there is one set of rates for all customers for a particular level of service, and rates for any special services that may be required are either identified in the city-approved rate schedule or offered at no additional charge as a requirement of the contract. There is no equivalent published rate schedule in cities with non-exclusive service arrangements.

Finding #1B: Comparing customer rates in different cities is not a reliable method for comparing the relative cost of exclusive and non-exclusive service arrangements. The net cost per ton collected, excluding city fees, is a more reasonable method of comparison.

Comparing commercial customer rates in exclusive commercial franchise cities to rates in cities with non-exclusive service does not provide a valid comparison of the relative cost of service for several reasons:

- 1) The rates in the non-exclusive cities cannot be verified, since there is no official rate schedule. As described in Finding #1A above, each waste hauler charges a different rate in a non-exclusive system, and often the same hauler will charge different rates to different customers for the same level of service, depending on negotiations with the customer.
- 2) There are dozens of different commercial rates for containers of different size and different collection frequencies, and one particular rate may not be representative of the relative rates for other services.
- 3) City franchise fees and other city fees are included in customer rates; these city fees are unrelated to the type of service arrangement and vary significantly among cities. See Finding #1C for a further discussion of this issue.
- 4) Comparing the refuse rate in a non-exclusive and exclusive franchise city would be misleading, because rates in cities with exclusive franchises often include additional customer services at no additional charge as part of the basic refuse rate. For example, in a city with non-exclusive service, there will be a customer rate for refuse collection service, and often an additional customer charge for recycling service (except for high-value materials such as cardboard for which there may be a payment to the customer). In some exclusive franchises, recycling service is provided at no additional charge as part of the contract. As another example, the cost of one container cleaning per year is sometimes included at no additional charge to the customer in an exclusive franchise, but is usually provided for an additional fee in a non-exclusive franchise. Costs for services provided at no additional charge in an exclusive franchise would usually be reflected in the basic refuse rate.
- 5) Rates in cities with exclusive franchises often include some city services at no additional charge such as refuse and recycling collection from city-sponsored events. There would typically be a charge for such services in a non-exclusive franchise agreement. Costs for services provided at no additional charge in an exclusive franchise would usually be reflected in the basic refuse rate.
- 6) The average weight per container can vary significantly among cities. For example, while the average industry figure is roughly 100 pounds of refuse per cubic yard of weekly bin capacity, we have seen cases where the city average was over 120 pounds and less than 80 pounds, a difference of 40 pounds or 50% (40 lbs/80 lbs = 50%). The difference in weight can reflect the mix of businesses in a particular city, as certain businesses such as restaurants have heavier average container weights than some other businesses such as retail stores. The difference in weights can also reflect that some haulers have been able to sell customers more solid waste capacity than needed to accommodate the waste stream generated by the customer. As a result, comparing rates in cities with different average container rates can provide a misleading conclusion about the actual cost of service.

- 7) It is not possible to reasonably draw conclusions from comparing customer rates when only looking at an example category of service, such as the 3-cubic yard bin collected once per week, even when comparing the rates in cities with published rate schedules in exclusive franchise systems. For example, consider the commercial customer rates for the cities in Table 1 below. These five cities have an exclusive franchise. The commercial customer rates, including city fees, are shown. Monthly rates are shown for a 3-cubic yard refuse bin collected once per week, a 3-cubic yard recycling bin collected once per week, and the scout service fee for once per week service. (Scout service is provided when a special bin truck is required to position the container for collection by the refuse vehicle, and to return the container after collection. Scout service is often required in underground parking garages or other container locations that the refuse vehicle cannot reasonably access). The rate structures are very different in each city. As shown in Table 1, in the cities of Bellflower and Manhattan Beach recycling service is offered at no additional charge, and in the cities of Cerritos, Lawndale and Hermosa Beach recycling service is offered for a fee. In the cities of Cerritos, Manhattan Beach and Lawndale there is no charge for scout service, whereas there is a charge for scout service in the cities of Bellflower and Hermosa Beach.

Table 1
Examples of Refuse, Recycling, and Scout Fees

Service	Monthly Rates ⁽¹⁾				
	Hermosa Beach	Lawndale	Manhattan Bch	Bellflower	Cerritos
Refuse - 3 Cubic Yard Bin Serviced One Time Per Week	\$ 91.59	\$ 95.44	\$ 100.84	\$ 107.18	\$ 114.20
Recycle - 3 Cubic Yard Bin Serviced One Time Per Week	\$ 66.24	\$ 31.35	No charge	No charge	\$ 65.06
Scout Fee: Refuse - One Time Per Week	\$ 11.57	No charge	No charge	\$ 10.34	No charge
Scout Fee: Recycling - One Time Per Week	\$ 11.57	No charge	No charge	No charge	No charge
Total Fees	\$ 180.97	\$ 126.79	\$ 100.84	\$ 117.52	\$ 179.26

⁽¹⁾ Bellflower and Hermosa Beach contract year 2011-2012 rates; Manhattan Beach fiscal year 2011-2012 rates; Cerritos and Lawndale calendar year 2012 rates.

Combinations of service offerings and the resulting customer rates are shown in Tables 2 and 3. In Table 2 below, if you were to compare the rates for a 3-cubic yard refuse bin collected once per week, you would conclude that the city of Hermosa Beach has the lowest rate of the five cities at \$91.59 per month. However, if you were to compare the rate for a customer that had both a refuse and recycling bin and required scout service, you would come to a very different conclusion: that Hermosa Beach has

the highest rates of the five cities shown, 79% above the lowest rate for that same level of service in the city of Manhattan Beach (Table 3).

Table 2
Service: Refuse Only
3 Cubic Yard Refuse Bin Serviced One Time Per Week

City	Total Rate	Percent Above Lowest Rate City
Hermosa Beach	\$ 91.59	N/A
Lawndale	\$ 95.44	4%
Manhattan Beach	\$ 100.84	10%
Bellflower	\$ 107.18	17%
Cerritos	\$ 114.20	25%

Table 3
Service: Refuse, Recycle & Scout Service
3 Cubic Yard Refuse Bin and 3 Cubic Yard Recycling Bin
Serviced One Time Per Week with Scout Service

City	Total Rate	Percent Above Lowest Rate City
Manhattan Beach	\$ 100.84	N/A
Bellflower	\$ 117.52	17%
Lawndale	\$ 126.79	26%
Cerritos	\$ 179.26	78%
Hermosa Beach	\$ 180.97	79%

For these reasons stated above, comparing customer rates does not provide a good method of evaluating the relative cost of exclusive and non-exclusive service arrangements. A more accurate benchmark is the net cost per ton collected, which is described in Finding #1C.

Finding #1C: Based on the net cost per ton collected, excluding city fees, the median cost of commercial service in the cities surveyed with separate exclusive commercial franchise systems and non-exclusive commercial service arrangements is similar.

We reviewed the commercial service arrangements in the 88 cities in Los Angeles County. We excluded the following five cities from the potential data pool:

- City of Avalon (on Catalina) was excluded because its unique location is not comparable.

- Cities of Claremont, Culver City, and Santa Monica were excluded because they have exclusive municipally-provided commercial service.
- The City of Rolling Hills was excluded because it has no commercial service.
- The City of Carson was excluded because it has a unique commercial system with two non-exclusive haulers and a City-approved maximum rate.

We requested data from the remaining 82 cities in order to calculate the cost per ton collected for commercial service. Cities that assess a franchise fee or other city fees based on gross receipts usually receive a report from their waste hauler(s) that reports the gross receipts, often (but not always) broken down between residential and commercial service. Similarly, the cities usually receive reports from their waste hauler(s) that identify the number of tons collected by service sector (residential and commercial). We requested these reports from cities in order to calculate the cost per ton collected. The hauler reports received by many cities do not separate roll-off box receipts and tonnage from commercial gross receipts tonnage, and therefore, the cost analysis included in this report is based on the combined bin and roll-off box service results.

Of the 82 cities from which we requested data, we received and were able to evaluate data from 40 cities. Cities that did not collect cost data by service sector (i.e. residential versus commercial) or that declined to participate were excluded from our analysis.

In order to standardize the comparison, we made the following adjustments to the data:

- We deducted franchise fees, AB 939 fees, and other fees remitted to the cities that are not retained by the waste hauler as part of the cost of service. Collectively, these amounts are referred to as “city fees” in this report. The city fees can be implemented in either an exclusive or non-exclusive service arrangement and vary significantly among public agencies. By deducting the city fees, the resulting comparison focuses on the relative cost of providing solid waste collection service in an exclusive or non-exclusive system.
- Generally the haulers perform the commercial billing of customers, however, commercial billing is also performed by a small number of cities with exclusive franchises. City billing of commercial customers tends to decrease the cost of service for the waste hauler. In order to standardize the comparison, we increased the cost in jurisdictions that performed the commercial billing by an average of 3% (Note: only three of 40 surveyed cities required this adjustment. The 3% adjustment was based on the median proposed cost to perform commercial billing in a competitive procurement for an exclusive franchise in the city of Manhattan Beach; the city was performing the commercial billing and was considering transferring the responsibility to the waste hauler).

The cities that provided data were categorized into three groups:

- Group 1: Cities with non-exclusive service arrangements (11 cities)
- Group 2: Cities with integrated residential and commercial exclusive franchises (25 cities)
- Group 3: Cities with exclusive commercial franchises that are separate from the residential franchise (i.e. the residential franchise holder is a different hauling entity than the commercial hauling entity) (four cities).

The distinction between group 2 and group 3 is important. In cities that contract with one waste hauler for an exclusive residential and commercial franchise, the waste hauler has flexibility in negotiating service costs with the city regarding the allocation of costs between the residential and commercial sectors. As a result, if the focus of negotiations is on minimizing residential costs, then allocated overhead and profit could be relatively higher in the commercial sector. The City of Los Angeles is not considering an integrated residential and commercial franchise. For this reason, the best benchmark for exclusive commercial service arrangements for the City of Los Angeles would be those cities that have commercial franchises that are separate from the residential franchise. We identified five jurisdictions that had separate exclusive commercial franchises in Los Angeles County: Alhambra, Beverly Hills, Diamond Bar, Huntington Park and Santa Clarita. Four of these five agencies provided data, with Huntington Park excluded.

Tables 4 through 6 identify the 40 cities that participated in our analysis. The tables separate the cities into the three groups described above.

Table 4
Group 1: Cities with Non-Exclusive Commercial Service Arrangements

City	Population	Number of Commercial Haulers Reported*
Bell Gardens	42,000	7
Burbank	104,000	29
Glendale	193,000	61
Long Beach	465,000	10
Los Angeles	3,825,000	68 ⁽¹⁾
Monrovia	37,000	3
Pasadena	139,000	27
Pomona	150,000	5
Rancho Palos Verdes	42,000	10
Torrance	146,000	26
Vernon	120	19

* In some cities haulers acquired by other haulers are reporting as separate entities; therefore, the number of independent companies could be smaller than reported.

⁽¹⁾ Represents the number of haulers that reported receipts. Included in the total are 24 haulers that only provide roll-off box service.

Commercial Solid Waste Cost and Fee Analysis

Table 5

Group 2: Cities with Integrated Residential and Commercial Exclusive Franchises

City	Population	Hauler
Artesia	17,000	Consolidated (Republic)
Azusa	47,000	Athens
Baldwin Park	76,000	Waste Management
Bellflower	77,000	CR&R
Bradbury	1,000	EDCO/Burrtec
Cerritos	49,000	CalMet
Downey	112,000	CalMet
Duarte	21,000	EDCO/Burrtec
Glendora	50,000	Athens
Hawaiian Gardens	14,000	Consolidated (Republic)
Hermosa Beach	20,000	Consolidated (Republic)
Inglewood	111,000	Waste Management
La Mirada	49,000	EDCO/Burrtec
La Puente	40,000	Valley Vista
Lancaster	158,000	Waste Management
Lawndale	33,000	Consolidated (Republic)
Lomita	20,000	CalMet
Manhattan Beach	35,000	Waste Management
Norwalk	106,000	Consolidated (Republic) and CR&R
Palmdale	154,000	Waste Management
Paramount	54,000	CalMet
Pico Rivera	63,000	CalMet
Redondo Beach	67,000	Athens
Rolling Hills Estates	8,000	Waste Management
Whittier ⁽¹⁾	86,000	Consolidated (Republic)

⁽¹⁾ Consolidated has an exclusive residential and commercial contract to serve a specific geographic area of the City of Whittier. The City of Whittier and Waste Management provide various services in other exclusive areas.

Table 6
Group 3: Cities with Separate Exclusive Commercial Franchises

City	Population	Residential Hauler	Commercial Hauler
Alhambra ⁽¹⁾	84,000	Allied (Republic)	Consolidated (Republic)
Beverly Hills	34,000	Municipal	Crown Disposal
Diamond Bar	56,000	Waste Management	Valley Vista
Santa Clarita ⁽²⁾	177,000	Waste Management	Burrtec

⁽¹⁾ Allied and Republic subsequently merged but the city maintained separate franchise agreements.

⁽²⁾ Commercial bin service included in franchise; roll-off excluded.

We compared the median cost per ton collected, adjusted as described above, for the three groups as shown in Table 7 below.

Table 7
Median Commercial Cost Per Ton Collected by Group Compared to the City of Los Angeles

Group	Service Arrangement	Commercial Cost Per Ton Collected
1	Non-Exclusive Commercial Service Arrangements ⁽¹⁾	\$102
2	Integrated Residential and Commercial Exclusive Franchises ⁽²⁾	\$121
3	Separate Exclusive Commercial Franchises ⁽³⁾	\$102
N/A	Existing City of Los Angeles Commercial Permit System	\$108

(1) See Appendix 1

(2) See Appendix 2

(3) See Appendix 3

As shown above, the median cost per ton collected for the non-exclusive commercial service arrangements in group 1 and separate exclusive commercial franchises in group 3 is similar at \$102.

The cities in group 3 have exclusive commercial service arrangements that are the most similar to what is proposed for the City of Los Angeles; the City has municipal residential collection which would continue and proposes an exclusive commercial franchise system with 11 exclusive service zones each served by one hauler.

The cost per ton in Table 7 was calculated as follows:

- Reports were obtained from the cities in each group identifying the annual gross receipts for solid waste services provided;

- We obtained the franchise agreement or other contractual documents that identified the method for calculating fees remitted to the cities, such as franchise fees;
- We obtained reports identifying the annual fees remitted to the cities if available, or we calculated the city fees based on terms contained in the franchise agreement or other contract documents;
- We obtained tonnage reports submitted by the haulers to the cities in each group, and tabulated the annual tons collected. If third party diversion (e.g. source reduction or recycling tonnage collected by third parties rather than the hauler) was identified in the tonnage reports, it was excluded from our tabulation of the total tons collected since there would be no receipts associated with such tonnage;
- We divided the net annual receipts (excluding city fees) by the total annual tons collected to calculate the cost per ton collected for each city;
- We calculated the median cost per ton for each group of cities with the results shown in Table 7.

Limitations

Our approach and adjustments account for some of the differences in services typically offered in exclusive and non-exclusive service arrangements. For example, service provided to municipal facilities at no additional charge in exclusive franchises is accounted for in our methodology because the increased cost of service is offset by an increase in the number of tons collected. There are other service enhancements sometimes offered in exclusive franchises that are not quantified. For example, some cities with exclusive franchises may receive collection of abandoned items in the public right-of-way, or portable toilet service at special events, which would increase the cost per ton collected. There are also unique characteristics in each jurisdiction that affect the cost of service that cannot be reasonably quantified, such as the distance to solid waste facilities, congestion and traffic conditions, the variety of waste diversion programs provided, the relative proportion of commercial bin service versus roll-off box service, and other factors. However, by using the group median as the basis of the comparison, the resulting calculations may provide a reasonable basis for an overall comparison.

The cost per ton was calculated using reports and data provided by the cities that included gross receipts, city fees, and tonnage data reported by the cities and/or the haulers. If those reports contain inaccuracies, then the resulting calculations based on that data would be impacted.

We note that some jurisdictions regularly use a competitive request for proposal ("RFP") process to award their exclusive franchise agreements, and others have renegotiated their agreements several times. As a result, the group medians shown in Table 7 reflect a mix of contracting processes. We have observed in the solid waste industry that jurisdictions that use an RFP process generally have lower costs than those that renegotiated their agreements. Based on other data separately collected apart from this study for 24 cities in southern California that completed competitive RFP processes for residential

and/or commercial solid waste collection and recycling contracts, 21 of the 24 cities experienced an overall rate decrease compared to the rates under the prior exclusive contracts in those jurisdictions (as measured by total annual rate revenues); the median rate reduction was approximately 17%, and many of those cities added enhanced services as part of the contracting process. For comparison, based on data for 10 southern California cities that renegotiated their solid waste contracts without a competitive proposal process, overall customer rates increased by an average of approximately 6%. Therefore, we believe that the group medians shown in Table 7 for the cities with exclusive franchise systems in group 2 and group 3 would be lower if all of the cities had used an RFP process.

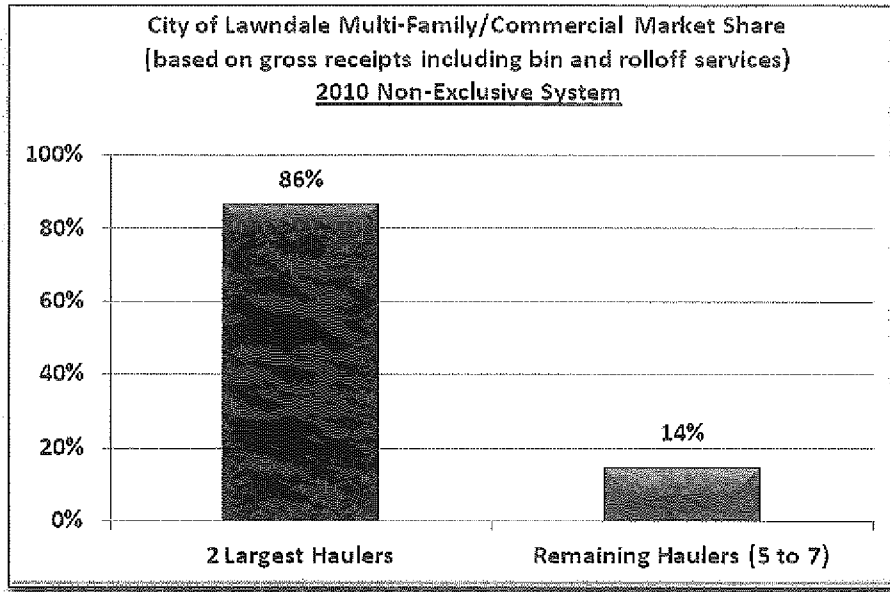
Lastly, we note that the customer rates in any exclusive franchise system will be significantly influenced by policy decisions regarding: the amount of city fees; requirements for material processing, recycling, and other diversion programs and/or diversion guarantees; city services or customer services provided at no additional charge which are reflected in the basic refuse rate; rate structure decisions that provide incentives for recycling; the length of the contract term; and other terms and conditions of the franchise agreement.

Finding 1D: The City of Lawndale experienced a commercial cost reduction of approximately 25% when it converted from a non-exclusive commercial permit system to an exclusive franchise in 2011.

In 2011, the City of Lawndale transitioned from a non-exclusive commercial solid waste collection system to an exclusive franchise system through a competitive proposal process. Prior to the transition, haulers providing services in the commercial and multi-family sectors of the city were required to complete an application, and pay quarterly business license and AB 939 fees based on a percentage of their gross receipts derived from providing services within the City of Lawndale. The number of permitted haulers fluctuated, and averaged between seven to nine haulers serving the commercial and multi-family sectors of the city. Under the non-exclusive commercial system the customer rates were negotiated by customers and the haulers. Residential customers were provided services under an exclusive franchise with one hauler. The city now contracts with one hauler to provide residential, multi-family and commercial collection services, and the city approves the rates.

As shown in Table 8, during the non-exclusive commercial system, 86% of the market was served by two of the permitted haulers. As a result, pricing may not have been as competitive in Lawndale as in non-exclusive systems in some other cities with less concentration of customers.

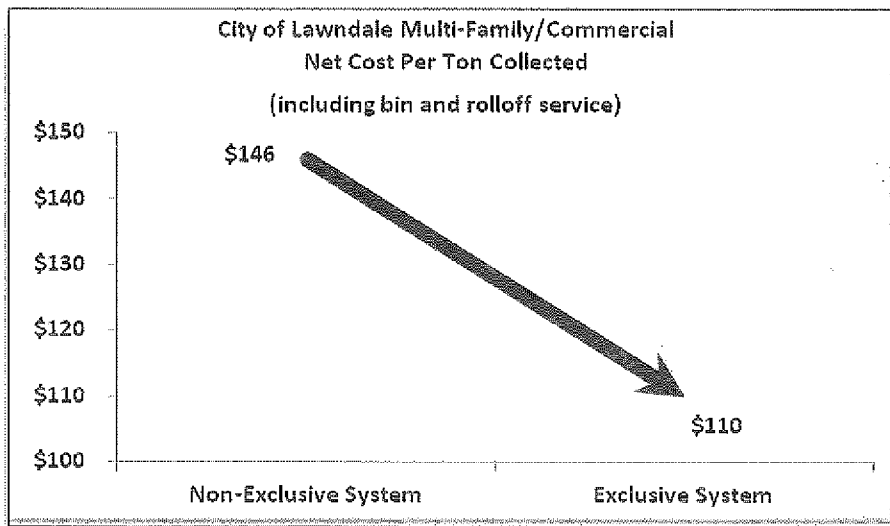
Table 8



The city issued a 5-year notice in 2004 to all permitted haulers stating the city’s intent to grant an exclusive franchise for residential, commercial and multi-family services. The city initiated a competitive RFP process for an exclusive residential and commercial franchise in 2009. The city received proposals from seven haulers, and awarded an exclusive franchise to Republic effective January 1, 2011.

As illustrated in Table 9, under the exclusive franchise, the city reduced the commercial net cost per ton collected by 25%, from approximately \$146 per ton under the non-exclusive permit system to \$110 per ton under the exclusive franchise system.

Table 9



As an alternative method for calculating Lawndale's savings under the exclusive franchise system, we compared the net billings reported by the winning contractor for services provided under the non-exclusive permit system to the net billings proposed by the winning contractor under the exclusive system. Using this methodology, commercial costs in the exclusive franchise were reduced by an average of 24% compared to the costs under the non-exclusive service arrangements.

Objective 2: Perform a franchise fee analysis to identify the low, median, and high franchise fee percentages in other Los Angeles County cities, and estimate the amount that a franchise fee might generate in the City of Los Angeles.

Finding #2: The franchise fees in other Los Angeles County cities range from 2% to 27% of gross receipts. The median franchise fee of 10% is estimated to generate approximately \$24.9 million annually in the City of Los Angeles. Total city fees including franchise fees and other solid waste fees retained by cities, range from 2% to 35% with a median of 14%.

Approximately half of the cities in the County have a commercial franchise fee. Some of the cities with franchise fees have also implemented other city fees (discussed below), while other cities do not assess a franchise fee but may assess other city fees. We obtained city fee data from 42 of the cities that reported assessing a franchise fee or other city fee in their solid waste system as shown in Table 10 (these include the 40 cities identified in groups 1, 2 and 3, plus two additional cities (Carson and Monterey Park)).

Table 10
Cities Providing Data that Assess Fees to Solid Waste Haulers

City	
Alhambra	Lancaster
Artesia	Lawndale
Azusa	Lomita
Baldwin Park	Long Beach
Bell Gardens	Los Angeles
Bellflower	Manhattan Beach
Beverly Hills	Monrovia
Bradbury	Monterey Park
Burbank	Norwalk
Carson	Palmdale
Cerritos	Paramount
Diamond Bar	Pasadena
Downey	Pico Rivera
Duarte	Pomona
Glendale	Rancho Palos Verdes
Glendora	Redondo Beach
Hawaiian Gardens	Rolling Hills Estates
Hermosa Beach	Santa Clarita
Inglewood	Torrance
La Mirada	Vernon
La Puente	Whittier

The majority of the cities charge a percentage based franchise fee which is applied to revenues or receipts, although other calculation methods are also used. We recalculated the franchise fee as a percent of the total gross receipts or total rate in cities that used other methods of assessment. The franchise fee percentages range from 2% to 27%, with a median franchise fee of 10% as shown in Appendix 4. This excludes other fees that may be assessed in addition to the franchise fee such as an AB 939 fee, a one-time upfront franchise fee, contract administration fees, refuse billing fees (if customers are billed by the public agency), or other fees unique to specific cities. If all of these fees are added together, the combined fees represent a range of 2% to 35% of gross receipts, with a median of 14% as shown in Appendix 4.

The franchise fee is typically deposited in the general fund and used as general purpose revenues. Other city fees that are assessed in some jurisdictions are restricted for specific purposes. For example,

revenue from an AB 939 fee is used to offset the costs of implementing and maintaining source reduction and recycling programs to comply with Assembly Bill 939 (California Integrated Waste Management Act of 1989). Vehicle impact fees are used to offset the costs of street repair and maintenance. Contract administration fees are used to offset the cost of managing the solid waste franchise agreement.

Potential Franchise Fee Impact on City of Los Angeles Revenues

In Table 11, we have applied the low, median and high franchise fee percentage rates from our survey to the \$224 million in gross receipts reported in the City of Los Angeles in 2009 by commercial and multi-family haulers for bin and roll-off services. The calculations are "grossed up" assuming that the haulers pass along the franchise fee to customers. The calculations illustrate the potential city revenue impact if the City were to assess franchise fees from the commercial and multi-family solid waste collection refuse service providers under an exclusive system based on 2009 price and service levels. Each one percentage point in a franchise fee equates to approximately \$2.3 million.

Table 11
Estimated City of Los Angeles Franchise Fee Revenue

Franchise Fee Percent		2009 Gross Receipts*	Receipts Gross Up Factor (1-FF%)	"Grossed Up" Revenue (current revenue ÷ gross up factor)	Franchise Fee Amount (rounded to nearest \$100,000)
Low	2%	\$ 224,000,000	0.98	\$ 228,600,000	\$ 4,600,000
Median	10%	\$ 224,000,000	0.90	\$ 248,900,000	\$ 24,900,000
High	27%	\$ 224,000,000	0.73	\$ 306,800,000	\$ 82,800,000

* Reported by commercial and multi-family service providers. Includes gross receipts from bin and roll-off services.

Phase-in of Franchise Fee

Franchise fees or other city fees that may be implemented could be phased-in over a period of years in order to level out initial cost impacts to haulers and their customers. For example, if the City desired to implement a 10% franchise fee, it could be implemented in 1% increments each year, so that after ten years the full 10% would be in effect. Alternatively, it could be implemented at 5% in the first year with 1% annual increments over the next five years, or any other phase-in schedule. Of course, this would delay the City's receipt of the full amount of the franchise fee revenue. An example of the later phase-in schedule is shown in Table 12.

Table 12
Example of Estimated City of Los Angeles Franchise
Fee Revenue From Phased-In Franchise Fee

Year	Franchise Fee Percent	Annual Franchise Fee Revenue (rounded to nearest \$100,000)
1	5%	\$ 11,800,000
2	6%	\$ 14,300,000
3	7%	\$ 16,900,000
4	8%	\$ 19,500,000
5	9%	\$ 22,200,000
6	10%	\$ 24,900,000
6-Year Total	N/A	\$ 109,600,000

An example of a city that phased in a new fee is the City of Campbell, located in northern California. The City of Campbell has an exclusive residential and commercial franchise, and implemented a solid waste vehicle impact fee beginning in 2009 that was phased in over three years in equal increments.

Potential Franchise Fee Impact on Customer Rates

As an example of the impact of the franchise fee on customer rates, in Table 13, we have applied the low, median and high franchise fee percentages to a small business customer paying approximately \$90.00 per month for a 3-cubic yard bin collected once per week. The calculations assume that the customer's rate is increased by the hauler to fully pass through the implementation of the franchise fee. For example, as shown in Table 13, if a 10% franchise fee was implemented on gross receipts, the haulers would have to increase their rates by approximately 11% to fully pass through the franchise fee; a customer with a 3-cubic yard bin collected once per week would receive a monthly rate increase of \$10.00 based on this example.

Table 13
Impact of Franchise Fees on Customer Rates

Franchise Fee %	Rate Gross Up Factor (1-FF%)	Example Commercial Rate	"Grossed Up" Rate (current rate ÷ gross up factor)	Rate Increase Percentage	Franchise Fee Amount
2%	0.98	\$ 90.00	\$ 91.84	2%	\$ 1.84
10%	0.90	\$ 90.00	\$ 100.00	11%	\$ 10.00
27%	0.73	\$ 90.00	\$ 123.29	37%	\$ 33.29

Objective 3: Describe the "rate caps" previously used in the cities of Beverly Hills and Santa Clarita (this was in response to a City of Los Angeles Ad Hoc Committee request at its April 10, 2012 meeting to address the potential applicability of "rate caps" (or maximum rates) for the City of Los Angeles).

Finding #3: A "rate cap" or maximum rate might be considered in a non-exclusive system when a small number of haulers are authorized to provide service in order to ensure reasonable customer rates in a system with limited competition. The City of Santa Clarita had three non-exclusive commercial haulers and the City of Beverly Hills had five non-exclusive commercial haulers when they implemented rate caps; both of those systems have since been converted to exclusive franchises. The City of Carson currently has two commercial haulers in a non-exclusive commercial system with a maximum rate approved by the City.

In this section we have provided examples of "rate band" and "rate cap" systems. The systems described below allowed the cities to approve the maximum rates charged by the non-exclusive franchised haulers without setting specific rates. Two of the cities included in this section have since transitioned to exclusive franchises with specific rates for each level of service.

City of Santa Clarita

In 1993, the City of Santa Clarita transitioned from an open market commercial solid waste system to a non-exclusive franchise system with three solid waste haulers. Under the city's non-exclusive franchise system, the three haulers could compete for customers throughout the city. The rates charged by the haulers were controlled through a preset "rate band" including a minimum and maximum rate approved by the city. The minimum and maximum allowable rates were adjusted annually based on a defined rate adjustment formula. The minimum and maximum rates were based on the size of container and the frequency of collection.

In 2004, the city of Santa Clarita transitioned to an exclusive commercial service arrangement with one hauler and the rate band was replaced by specific rates for each level of service.

City of Beverly Hills

In 2005, the City of Beverly Hills transitioned from an open market commercial solid waste system to a non-exclusive franchise system with five solid waste haulers. This non-exclusive franchise system had a base period of five years, with two optional one-year extensions. Each of the haulers could compete for customers throughout the city. By the conclusion of franchise term, through a process of route acquisitions and company mergers, the city's commercial and industrial sectors were served by two haulers. The maximum rates charged to customers by the haulers were controlled by the city, and customers could negotiate lower rates with any of the franchise haulers. The system has since been replaced by an exclusive franchise with one hauler and specific rates for each level of service.

City of Carson

The City of Carson has two non-exclusive commercial franchise agreements, one with Waste Management and one with EDCO. Customers may select either hauler to provide services. The agreements contain a maximum customer rate and the haulers may charge no more than the maximum rate. Waste Management has approximately 96% of the commercial business and EDCO has approximately 4%.

APPENDIX 1

Group 1: Commercial Cost Per Ton Collected

City Rank	Commercial Receipts Per Ton Collected		
	Gross Receipts Per Ton Collected	City Fees Per Ton Collected	Net Receipts Per Ton Collected
1	\$ 81	\$ (6)	\$ 75
2	\$ 86	\$ (9)	\$ 77
3	\$ 117	\$ (35)	\$ 82
4	\$ 116	\$ (23)	\$ 93
5	\$ 116	\$ (16)	\$ 100
6	\$ 121	\$ (19)	\$ 102
7	\$ 114	\$ (10)	\$ 104
8	\$ 131	\$ (26)	\$ 105
9	\$ 127	\$ (20)	\$ 107
10	\$ 120	\$ (12)	\$ 108
11	\$ 136	\$ (7)	\$ 129
Median			\$ 102
Mean			\$ 98

Commercial Solid Waste Cost and Fee Analysis

APPENDIX 2

Group 2: Commercial Cost Per Ton Collected

City Rank	Commercial Receipts Per Ton Collected		
	Gross Receipts Per Ton Collected	City Fees Per Ton Collected	Net Receipts Per Ton Collected
1	\$ 93	\$ (13)	\$ 80
2	\$ 105	\$ (16)	\$ 89
3	\$ 109	\$ (15)	\$ 94
4	\$ 109	\$ (14)	\$ 95
5	\$ 114	\$ (18)	\$ 96
6	\$ 118	\$ (18)	\$ 100
7	\$ 111	\$ (10)	\$ 101
8	\$ 106	\$ (2)	\$ 104
9	\$ 131	\$ (21)	\$ 110
10	\$ 139	\$ (29)	\$ 110
11	\$ 139	\$ (28)	\$ 111
12	\$ 128	\$ (14)	\$ 114
13	\$ 166	\$ (45)	\$ 121
14	\$ 146	\$ (25)	\$ 121
15	\$ 141	\$ (11)	\$ 130
16	\$ 134	\$ (3)	\$ 131
17	\$ 146	\$ (15)	\$ 131
18	\$ 152	\$ (20)	\$ 132
19	\$ 147	\$ (15)	\$ 132
20	\$ 147	\$ (7)	\$ 140
21	\$ 179	\$ (39)	\$ 140
22	\$ 148	\$ (7)	\$ 141
23	\$ 226	\$ (79)	\$ 147
24	\$ 165	\$ (18)	\$ 147
25	\$ 185	\$ (20)	\$ 165
Median			\$ 121
Mean			\$ 119

APPENDIX 3

Group 3: Commercial Cost Per Ton Collected

Commercial Receipts Per Ton Collected			
City Rank	Gross Receipts Per Ton Collected	City Fees Per Ton Collected	Net Receipts Per Ton Collected
1	\$ 82	\$ (6)	\$ 76
2	\$ 149	\$ (49)	\$ 100
3	\$ 117	\$ (14)	\$ 103
4	\$ 170	\$ (31)	\$ 139
Median			\$ 102
Mean			\$ 105

Commercial Solid Waste Cost and Fee Analysis

APPENDIX 4

Franchise Fees and Total City Fees As A Percent of Gross Receipts
Sorted Low To High

City Ranking	Franchise Fee	Total City Fees
1	2%	2%
2	2%	2%
3	5%	5%
4	n/a	5%
5	5%	5%
6	6%	7%
7	5%	7%
8	8%	8%
9	8%	9%
10	n/a	9%
11	10%	10%
12	10%	10%
13	n/a	10%
14	n/a	10%
15	10%	11%
16	9%	11%
17	10%	11%
18	10%	12%
19	7%	13%
20	13%	13%
21	10%	14%
22	10%	14%
23	n/a	14%
24	15%	15%
25	12%	15%
26	5%	15%
27	n/a	16%
28	4%	16%
29	n/a	16%
30	n/a	16%
31	15%	17%
32	5%	18%
33	17%	20%
34	n/a	20%
35	20%	20%
36	n/a	21%
37	12%	22%
38	23%	27%
39	12%	28%
40	25%	30%
41	n/a	33%
42	27%	35%
Median	10%	14%
Average	11%	15%