

EXHIBIT 2 :
ANNUAL RATE ADJUSTMENTS

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Exhibit 2 Annual Rate Adjustment

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3 1. **RR Annual Rate Adjustment Calculation.** The Annual Rate Adjustment for the
4 Residential Recycling Collection Contract shall be calculated in the following
5 manner:

6 1.1. There are seven (7) Contractor Cost Categories for purposes of the RRI
7 adjustment calculation: RR Union Labor, Diesel Fuel, CNG Fuel, Vehicle
8 Replacement, Vehicle Maintenance, Processing and All Other. There are up to
9 two (2) additional Contractor Cost Categories, of which their weighted percent
10 change will be added to the RRI adjustment for purposes of the Annual Rate
11 Adjustment: Government Fees – Processing, Franchise Fees.

12 1.2. Within each Cost Category (1-9) are expenses generally described in the
13 attached Operating Cost Statement – Description (the “Allowed Expenses”).
14 Only these Allowable Expenses may be used by Contractor to calculate the
15 annual total of each Cost Category.

16 1.3. CONTRACTOR will calculate the total of all Allowable Expenses (as defined in
17 Section 4 of this Exhibit 2) for each Cost Category (also defined herein) for the
18 full or partial, as appropriate, calendar year ending December 31. Each Cost
19 Category will then be assigned an “item weight” based on the proportionate
20 share of its Allowable Expenses total to the total of all Allowable Expenses for all
21 Cost Categories (1-9). For example, if the Allowable Expenses of the Diesel Fuel
22 Cost Category total \$100, and the Allowable Expenses within all Cost
23 Categories is \$2,000, then the Diesel Fuel Cost Category’s item weight will be
24 5%. The Cost Categories shall be reweighed every year based on allowable
25 expenses thereafter from January 1st through December 31st.

26 1.4. Each Cost Category’s item weight is then multiplied by the percent change of its
27 Cost Indicator to calculate its weighted percentage change. Each Cost
28 Category’s review dates or review years are set forth below. Each Cost
29 Category’s Cost Indicator is set forth in Section 2 below. For those Cost
30 Categories using a review year, the percentage change is the difference in the
31 annual average of the cost indicator index of the preceding review year and the
32 annual average of the cost indicator index of current review year. For those
33 Cost Categories using a review date, the percentage change is the difference in
34 the cost indicator at the previous review date and the cost indicator at the
35 current review date. With regard to those Cost Indicators which are a published
36 index, should such index be discontinued, a successor index shall be selected
37 by mutual agreement of the parties. Successor indices shall be those indices
38 that are most closely equivalent to the discontinued index.

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Table 1 – Cost Categories and Review Year or Date			
Item	Cost Category	Previous Review year or Date	Current Review Year or Date
1	RR Union Labor	July 1 of previous calendar year	July 1 of current calendar year
2	Diesel Fuel	December 31 of next previous calendar year	December 31 of previous calendar year
3	CNG Fuel	December 31 of next previous calendar year	December 31 of previous calendar year
4	Vehicle Replacement	December 31 of next previous calendar year	December 31 of previous calendar year
5	Vehicle Maintenance	December 31 of next previous calendar year	December 31 of previous calendar year
6	Processing Facility RRI (¹)	December 31 of next previous calendar year	December 31 of previous calendar year
7	All Other	December 31 of next previous calendar year	December 31 of previous calendar year
8	Government Fees – Processing	July 1 of previous calendar year	July 1 of current calendar year
9	Franchise Fees	July 1 of previous calendar year	July 1 of current calendar year

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¹ Except the Union Labor Cost Category of the Processing Facility RRI which will have a July 1 review year all other Cost Categories within the Processing Facility RRI will have December 31 review years.

42 1.5. The weighted percentage change of Cost Categories 1 - 7 are then added
 43 together to calculate the RRI adjustment. The weighted percent change of the
 44 RR Franchise Fees shall be as calculated except where there is a negative
 45 change in CONTRACTOR Gross Receipts as set forth in Section 7.16.1 of the
 46 Contract, in which case the Franchise Fee increase is zero. The weighted
 47 percent change of Cost Categories 8 - 9 as appropriate are then added to the
 48 RRI adjustment to calculate the Annual Rate Adjustment.

49 2. RR Cost Indicators

50 <u>RR Cost Category</u>	<u>Cost Indicator²</u>
51 RR Union Labor	52 Projected (as of March 1st preceding the review date to be 53 effective as of the review date) total Union (Local 70, 1546 54 and 6 Clerical) wage, health and welfare, and pension costs 55 under CWS collective bargaining agreements for those 56 employees domiciled at 1820 10th Street, Oakland , CA or 57 3300 Wood Street, Oakland, CA. Calculated pursuant to Section 3 below.
58 Diesel Fuel	59 Series ID: wpu057303 #2 Diesel Fuel (average for 12 60 months ending on the current review year)
61 CNG Fuel	62 Schedule G-NGV-1, compiled and published by the Pacific 63 Gas and Electric Co. Analysis and Rate Department and 64 reported monthly in the "Gas Rate Finder" publication 65 (http://www.pge.com/tariffs) reflecting the sum of the 66 Customer, procurement, transportation and public purpose program charges (average for 12 months ending on the current review year).
67 Vehicle Replacement	68 Series ID: pcu336211336211 Truck, bus, car, and other 69 vehicle bodies, for sale separately (average for 12 months ending on the current review year)
70 Vehicle Maintenance	71 Series ID: pcu3339243339243 Parts and attachments for 72 industrial work trucks (average for 12 months ending on the current review year)
73 Processing Facility RRI:	74 10 th & Wood Street Processing RRI (This cost category will be calculated pursuant to Section 5 below)
75 All Other:	76 Series ID: cuura422sa0 Consumer Price Index, All Urban 77 Consumers, All Items, San Francisco-Oakland-San Jose, CA

² With regard to each Cost Indicator under the RR and Processing Facility RRI's which is an index, the Cost Indicator will be the index's twelve-month average for the period ending on the applicable (previous or current) December 31 review year. With regard to the Union Labor Cost Categories within the RR and Processing Facility RRI's, the Cost Indicator will be the projected union labor costs on the applicable (previous or current) July 1 review date.

77 (average for 12 months ending on the current review year)

78 Government Fees - Processing - See Table 2 below.

79 Franchise Fees Series ID: cuura422sa0 Consumer Price Index, All Urban
 80 Consumers, All Items, San Francisco-Oakland-San Jose, CA
 81 (average for 12 months ending on the current review year)
 82

Table 2 - Processing Government Fees									
Agency	Base Fee (2008)	Current Fee 10/20/14	Annual MSW Fee Increases						
			2009	2010	2011	2012	2013	2014	2015
Alameda County Waste Management Authority Facilities Fee	\$1.50	\$4.34	\$0.50	\$2.34	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL PROCESSING GOV'T FEES	\$1.50	\$4.34	\$0.50	\$2.34	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

83 Note: Table 2 contains all Processing government fees that were effective as of July 1,
 84 2014. (See Column titled "Current Fee 10/20/14"). The Tables will be updated prior to
 85 July 1, 2015 for Processing government fees, if any, that become effective between July
 86 2, 2014 and July 1, 2015.

87 3. **RR Union Labor Cost Indicator.** Annual changes to the RR Union Labor Cost
 88 Indicator shall be calculated by determining the total labor increase for each Union
 89 party to a collective bargaining agreement with CONTRACTOR, as follows:

90 3.1. Local 70 annual total labor increase shall be determined by calculating the
 91 percentage change of the sum of the All Classification straight time hourly wage
 92 rate, monthly health and welfare premium (as converted to a straight time hourly
 93 rate³), and the straight time hourly pension rate between the previous review date
 94 and the current review date. Since this calculation must be performed prior to the
 95 July 1st of the current review date, CITY and CONTRACTOR have agreed that the
 96 costs for the current review date shall be those costs that are projected as of March
 97 1st preceding the current review date to be effective as of the current review date.
 98 Changes that become known after March 1st preceding the current review date shall
 99 be incorporated into the RRI adjustment in the next year with no provision for
 100 retroactive adjustments. The resulting year over year percentage change shall be

³ Converting monthly amounts to hourly will be done by dividing the monthly amount by 173.

101 multiplied by the percentage of RR Union Labor employees represented by Local 70.

102 3.2. Local 1546 annual total labor increase shall be determined by calculating
103 the percentage change of the sum of the Journeyman classification straight time
104 hourly wage rate, monthly health and welfare premium (as converted to a straight
105 time hourly rate), and the straight time hourly pension rate between the previous
106 review date and the current review date. Since this calculation must be performed
107 prior to the July 1st of the current review date, CITY and CONTRACTOR have
108 agreed that the costs for the current review date shall be those costs that are
109 projected as of March 1st preceding the current review date to be effective as of the
110 current review date. Changes that become known after March 1st preceding the
111 current review date shall be incorporated into the RRI adjustment in the next year
112 with no provision for retroactive adjustments. The resulting year over year
113 percentage change shall be multiplied by the percentage of RR Union Labor
114 employees represented by Local 1546.

115 3.3. Local 6 Clerical annual total labor increase shall be determined by
116 calculating the percentage change of the sum of the CSR II classification straight
117 time hourly wage rate, monthly health and welfare premium (as converted to a
118 straight time hourly rate), and the straight time hourly pension rate between the
119 previous review date and the current review date. Since this calculation must be
120 performed prior to the July 1st of the current review date, CITY and CONTRACTOR
121 have agreed that the costs for the current review date shall be those costs that are
122 projected as of March 1st preceding the current review date to be effective as of the
123 current review date. Changes that become known after March 1st preceding the
124 current review date shall be incorporated into the RRI adjustment in the next year
125 with no provision for retroactive adjustments. The resulting year over year
126 percentage change shall be multiplied by the percentage of RR Union Labor
127 employees represented by Local 6 Clerical.

128 3.4. Once the weighted percentage labor increase for each Union is determined, the
129 above sums shall be added together to determine the overall weighted percentage
130 change of the RR Union Labor Cost Category to be applied to the RR RRI
131 adjustment calculation.

132 3.5. For purposes of clarification with regard to the July 1, 2016 Annual Rate
133 Adjustment, the review years or dates for the Cost Categories will be as follows:

134

Table 3 – Cost Categories and Review Year or Date for July 1, 2016 Annual Rate Adjustment			
Item	Cost Category	Previous Review Year or Date	Current Review Year or Date
1	RR Union Labor	July 1, 2015	July 1, 2016
2	Diesel Fuel	Calendar Year Ending December 31, 2014	Calendar Year Ending December 31, 2015
3	CNG Fuel	Calendar Year Ending December 31, 2014	Calendar Year Ending December 31, 2015
4	Vehicle Replacement	Calendar Year Ending December 31, 2014	Calendar Year Ending December 31, 2015
5	Vehicle Maintenance	Calendar Year Ending December 31, 2014	Calendar Year Ending December 31, 2015
6	Processing Facility RRI ⁴	Calendar Year Ending December 31, 2014	Calendar Year Ending December 31, 2015
7	All Other	Calendar Year Ending December 31, 2014	Calendar Year Ending December 31, 2015
8	Government Fees – Processing	July 1, 2015	July 1, 2016
9	Franchise Fees	July 1, 2015	July 1, 2016

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136 3.6 To calculate the Annual Rate Adjustment, the RRI adjustment is added to the
 137 sum of the weighted percentage change (including all Cost Categories) in the Cost
 138 Indicators of Cost Categories 8 – 9. The following is an example Annual Rate
 139 Adjustment calculation:

⁴ Except the Union Labor Cost Category of the Processing Facility RRI which will have a July 1 review year all other Cost Categories within the Processing Facility RRI will have December 31 review years.

Table 4 – Example of Annual Rate Adjustment Calculation				
Item	Cost Category	Cost Indicator % Change	Item Weight	Weighted % Change
1	RR Union Labor	4.64%	35.00%	1.43%
2	Diesel Fuel	15.70%	0.00%	0.00%
3	CNG Fuel	-0.10%	4.00%	0.00%
4	Vehicle Replacement	3.14%	6.00%	0.19%
5	Vehicle Maintenance	2.67%	5.15%	0.14%
6	Processing Facility RRI	3.79%	8.20%	0.31%
7	All Other	2.24%	10.38%	0.23%
	RRI Adjustment			2.30%
	RRI Cap Adjustment			0.00%
	Allowable RRI Adjustment			2.30%
	Diversion Adjustment			100.00%
	Subtotal (Allowable RRI Adj x Diversion Adj)			2.30%
8	Government Fees – Processing	3.27%	5.38%	0.18%
9	RR Franchise Fees	2.24%	25.89%	0.58%
	Subtotal Annual Rate Adjustment			3.06%
	Differential Adjustment (Section 7.07.7) (if needed)			0.00%
	Annual Rate Adjustment		100%	3.06%

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141 3.7 In those years in which it is required the Retroactive Adjustment is added to the
142 Annual Rate Adjustment.

143

144 3.8 Special Adjustments.

145 3.8.1 Special Prior Year CPI Adjustment. For the July 1, 2016 and July 1, 2017 rate
146 adjustments the Annual Rate Adjustment shall include an additional percentage
147 increase per year, over and above the amounts calculated hereinabove (two
148 percentage increases). The methodology for calculating these increases and the
149 adjustments to the Maximum Recycling Service Rates related to them are set forth in
150 Tables 5A and 5B below. These adjustments will be added to the Annual Rate
151 Adjustment after the application of the Retroactive Adjustment, as shown in
152 Table 6 below. The special prior year CPI adjustment shall be applied to the
153 rates in Exhibit 1 as specified on the Special Adjustments Sections of Exhibits
154 1A through 1C.

155 3.8.2 Special \$0.97 Adjustment. For the July 1, 2016 through the July 1,
156 2018 rate adjustments the SFD and MFD maximum per Dwelling Unit
157 Recycling rates will be adjusted by \$0.97 each year. This adjustment will be
158 added to the SFD and MFD maximum per Dwelling Unit Recycling rates after
159 the application of the Annual Rate Adjustment, the Retroactive Adjustment
160 and in years 2 and 3 the special prior year CPI adjustment, as shown in Table
161 6 below. The special \$0.97 adjustment shall be applied to the rates in Exhibit
162 1 as specified on the Special Adjustments Sections of Exhibits 1A through 1B.

163 3.8.3 Local 6 Adjustment to the SFD and MFD Maximum per Dwelling Unit
164 Rates. For the July 1, 2016 through the July 1, 2019 rate adjustments the
165 SFD maximum per Dwelling Unit Recycling rate will be adjusted by \$.32 each
166 year and the MFD maximum per Dwelling Unit Recycling rate will be adjusted
167 by \$.35 each year. These adjustments will be added to the SFD and MFD
168 maximum per dwelling unit recycling rates respectively after the application of
169 the Annual Rate Adjustment, the Retroactive Adjustment and in years 2 and 3
170 the Special CPI Adjustment, as shown in Table 6 below. The Local 6
171 Adjustment shall be applied to the rates in Exhibit 1 as specified on the
172 Special Adjustments Sections of Exhibits 1A through 1B.

Residential Recycling Collection Services Contract

	B	C	D	E	F	G	H	I
9	Table 5A - Example of Base Calculation With March 2015 CPI Adjustment Using a 32 Gallon Cart (Non-Deferred Plan)							
10	Contract Year			1	2	3	4	5
11		Mo. Rate	3/1/2015	7/1/2015	7/1/2016	7/1/2017	7/1/2018	7/1/2019
12	March 2015 CPI Adjustment		2.00%					
13	Annual Rate Adjustment (Prior to Special Adjustments) (Applied to Base Rate - Row 17)				3.00%	3.00%	4.00%	4.00%
14	Special \$0.97 Adjustment				\$ 0.97	\$ 0.97	\$ 0.97	\$ -
15	Local 6 Adjustment				\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
16								
17	RR Base Rate	\$ 9.17	\$ 9.35	\$ 9.35	\$ 9.35	\$ 10.92	\$ 12.54	\$ 14.33
18	Annual Rate Adjustment (Prior to Special Adjustments)				\$ 0.28	\$ 0.33	\$ 0.50	\$ 0.57
19	RR \$.097 Adjustment				\$ 0.97	\$ 0.97	\$ 0.97	\$ -
20	RR Local 6				\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
21	Total RR Rate	\$ 9.17	\$ 9.35	\$ 9.35	\$ 10.92	\$ 12.54	\$ 14.33	\$ 15.23
22								
23	Annual Base Rate	\$110.04	\$ 112.24	\$ 112.24	\$ 131.09	\$ 150.50	\$ 172.00	\$ 182.72
24	Cumulative Annual Rate			\$ 112.24	\$ 243.33	\$ 393.83	\$ 565.83	\$ 748.55
25	Annual Revenue @ 150,000 Customers			\$16,836,120	\$ 19,663,204	\$ 22,575,100	\$ 25,800,104	\$ 27,408,108
26	Cumulative Annual Revenue			\$16,836,120	\$ 36,499,324	\$ 59,074,423	\$ 84,874,527	\$112,282,635
27								
28	Table 5B - Example of Rate Calculation Deferring the March 2015 CPI Adjustment to Years 2 and 3 Using a 32 Gallon Cart (Deferred Plan)							
29		Mo. Rate	3/1/2015	7/1/2015	7/1/2016	7/1/2017	7/1/2018	7/1/2019
30	March 2015 CPI Adjustment		0.00%					
31	Deferred March 2015 CPI Adjustment				1.96456%	1.96456%		
32	Annual Rate Adjustment (Prior to Special Adjustments)				3.00%	3.00%	4.00%	4.00%
33	Special \$0.97 Adjustment				\$ 0.97	\$ 0.97	\$ 0.97	\$ -
34	Local 6 Adjustment				\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
35								
36	RR Base	\$ 9.17	\$ 9.17	\$ 9.17	\$ 9.17	\$ 10.92	\$ 12.54	\$ 14.33
37	RR Deferred March 2015 CPI Adjustment				\$ 0.18	\$ 0.21	\$ -	\$ -
38	Annual Rate Adjustment (Prior to Special Adjustments)				\$ 0.28	\$ 0.33	\$ 0.50	\$ 0.57
39	RR \$.097 Adjustment				\$ 0.97	\$ 0.97	\$ 0.97	\$ -
40	RR Local 6				\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
41	Total RR Rate	\$ 9.17	\$ 9.17	\$ 9.17	\$ 10.92	\$ 12.76	\$ 14.33	\$ 15.23
42								
43	Annual Base Rate			\$ 110.04	\$ 131.05	\$ 153.11	\$ 172.00	\$ 182.72
44	Cumulative Annual Rate			\$ 110.04	\$ 241.09	\$ 394.20	\$ 566.20	\$ 748.92
45	Annual Revenue @ 150,000 Customers			\$16,506,000	\$ 19,657,179	\$ 22,966,658	\$ 25,800,104	\$ 27,408,108
46	Cumulative Annual Revenue			\$16,506,000	\$ 36,163,179	\$ 59,129,837	\$ 84,929,940	\$112,338,048
47	Cumulative Difference				\$ (336,145)	\$ 55,413	\$ 55,413	\$ 55,413

48	Discount Rate					8%		
49	NPV of Deferred Funds					\$ 0		

History

- A. The draft City of Oakland Contract allowed for the new rates, approved by City Council, to increase by 100% of the change in the All Urban Consumer Price Index, for the San Francisco-San Jose-Oakland Area, for the calendar year 2014 versus 2013. The CPI adjustment was to allow for cost increases that occurred between the time rates were submitted through the RFP and the effective date of the Contract. The increase was to take effect July 1, 2015. (Non-Deferred Plan)
- B. During negotiations, the City requested and the Contractor agreed that the increase, based on the CPI would be deferred and applied in Years 2 and 3 and that the Contractor would receive the same amount of compensation that would have been earned if the CPI were applied in Year 1, plus interest. (Deferred Plan)
- C. The calculations shown in Tables 5A and 5B above are examples developed to demonstrate a method to insure that the Contractor received the same amount of compensation under the Deferred Plan, with interest, as under the Non-Deferred Plan.
- D. Following are the assumptions and steps for this calculation.

Assumptions

- 1. Table 5A represents an example of the revenue that would be generated if the March 2015 CPI adjustment had been implemented in Year 1 on July 1, 2015, using the assumptions in Notes 3 -8 below.
- 2. Table 5B represents an example of the revenue that would be generated under the proposed adjustment schedule, if the CPI were applied in Year 2 on July 1, 2016 and in Year 3 on July 1, 2017, using the assumptions in Notes 3 - 8 below.
- 3. Tables 5A and 5B assume a SFD Customer count of 150,000.
- 4. Tables 5A and 5B assume all SFD Customers utilize a 32 gallon Cart with a monthly base rate of \$9.17.
- 5. Tables 5A and 5B assume the March 2015 CPI Adjustment would have been 2.0% The actual change in the CPI will be known when the 2014 index is published in early 2015.
- 6. Tables 5A and 5B assume the Annual Rate Adjustments, for 7/1/16 and 7/1/17 would have been 3.0% and for 7/1/18 and 7/1/19 would have been 4.0%.
- 7. Tables 5A and 5B assume a Net Present Value (NPV) discount rate of 8%.
- 8. The term "Annual Rate Adjustment" as used in Tables 5A and 5B includes the adjustments shown in Table 4, Section 3.6 of Exhibit 2 plus, to the extent appropriate, the Retroactive Adjustment set forth in Section 3.7 of Exhibit 2.

For Year 2

- 9. Calculate the 3/1/15 RR Base Rate in Table 5A by multiplying the beginning Monthly Rate (\$9.17) by the estimated March 2015 CPI Adjustment of 2% (Cell D12).
- 10. In accordance with the Contract and prior to Year 2, the Contractor and CITY will calculate the Annual Rate Adjustment and insert that rate into cell F13.
- 11. For Year 2, calculate the rate increase, in rows 18, 19 & 20, in Table 5A, using the Annual Rate Adjustment, Special \$0.97 Adjustment and the Local 6 Adjustment in rows 13, 14 & 15, to the RR Base Rate, to determine the Total RR Rate for that year.
- 12. Insert the best estimate of the Year 3 Annual Rate Adjustment in cell G13.
- 13. Calculate the Annual Base Rate, Cumulative Annual Rate, Annual Revenue and Cumulative Annual Revenue for each year in Table 5A. (Rows 23 through 26).
- 14. For Year 2, calculate the rate increase in rows 38, 39 & 40, in Table 5B, using the Annual Rate Adjustment, Special \$0.97 Adjustment and the Local 6 Adjustment in rows 32, 33 & 34, to the RR Base Rate in row 36, to determine the Total RR Rate for that year.
- 15. Calculate the Annual Base Rate, Cumulative Annual Rate, Annual Revenue and Cumulative Annual Revenue for each year in Table 5B. (Rows 43 through 46).

16. In order to insure the same amount of compensation for the 3 year period plus interest, use Goal Seek to set the value of cell G49 to \$0.00 (the difference in the NPV of Deferred Funds of the 3 year cash flows in rows 25 & 45), by changing cell F31.
17. Cells F31 and G31 reflect the percentage increases required to achieve the same amount of compensation over the 3 year period, plus interest, under the Non-Deferred Plan versus the Deferred Plan.
18. In order to avoid excess revenues in future years, reset the 7/1/18 Customer rate in cell H36 equal to the rate in cell H17, the rate if the Non-Deferred Plan were implemented.
19. Verify that the difference in annual cumulative revenue between Table 5A and Table 5B beginning in Year 7/1/2018 (Cells H47 & I47) remains constant indicating that no excess revenue has been generated.
20. Cell F45 represents an example of the Contractor's compensation for Year 2.

For Year 3

21. In accordance with the Contract and prior to Year 3, the Contractor and CITY will calculate the Annual Rate Adjustment and insert that rate into cell G13.
22. For Year 3, calculate the rate increase, in rows 18, 19 & 20, in Table 5A, using the Annual Rate Adjustment, Special \$0.97 Adjustment and the Local 6 Adjustment in rows 13, 14 & 15, to the RR Base Rate, to determine the Total RR Rate for that year.
23. For Year 3, calculate the Annual Base Rate, Cumulative Annual Rate, Annual Revenue and Cumulative Annual Revenue Table 5A. (Rows 23 through 26).
24. For Year 3, calculate the rate increase in rows 38, 39 & 40, in Table 5B, using the Annual Rate Adjustment, Special \$0.97 Adjustment and the Local 6 Adjustment in rows 32, 33 & 34, to the RR Base Rate in row 36, to determine the Total RR Rate for that year.
25. For Year 3, calculate the Annual Base Rate, Cumulative Annual Rate, Annual Revenue and Cumulative Annual Revenue in Table 5B. (Rows 43 through 46).
26. In order to insure the same amount of compensation for the 3 year period plus interest, use Goal Seek to set the value of cell G49 to \$0.00 (the difference in the NPV of Deferred Funds of the 3 year cash flows in rows 25 & 45), by changing cell G31. Cell F31 does not change from the prior year.
27. Cell G31 reflects the percentage increase required to achieve the same amount of compensation over the 3 year period, plus interest, under the Non-Deferred Plan versus the Deferred Plan.
28. In order to avoid excess revenues in future years, reset the 7/1/18 Customer rate in cell H36 equal to the rate in cell H17, the rate if the Non-Deferred Plan had been implemented.
29. Verify that the difference in annual cumulative revenue between Table 5A and Table 5B beginning in Year 7/1/2018 (Cells H47 & I47) remains constant indicating that no excess revenue has been generated.
30. Cell G45 represents an example of the Contractor's compensation for Year 3.

Table 6 - Order of Application of Adjustments for Year 2 (July 1, 2016)				
Item	Cost Category	Cost Indicator Percent Change	Item Weight	Weighted Percent Change
	Annual Rate Adjustment Subtotal (After application of RRI cap and Diversion Adjustments as needed per Table 4)			3.06%
	Differential Adjustment (Section 7.07.7) (if needed)			0.00%
	Annual Rate Adjustment			3.06%
	Retroactive Adjustment (if needed)			0.00%
	Special CPI Adjustment (Estimate)			3.00%
Total Year 2 Rate Adjustment Percentage				6.06%

3.9 In addition the Special \$0.97 Adjustment and the Local 6 Adjustment shall be added to the SFD and MFD per Dwelling Unit Recycling Rates after the application of the Annual Rate Adjustment.

3.10. Contamination Surcharges. The Annual Rate Adjustment, Retroactive Adjustment and Special Adjustments shall not be applied to the Contamination Surcharges.

4. RR Operating Cost Statement-Description

RR Union Labor: List all labor accounts for CWS's employees domiciled at 1820 10th Street, Oakland, CA or 3300 Wood Street, Oakland, CA. who are members of Local 70, Local 1546 and Local 6 Clerical. Wages – hourly & overtime, Bonuses, Commissions, Other Compensation, Compensated Absences & Vacation, Severance, Health & Welfare Insurance Premiums, Pension & Retirement Benefits, Payroll Taxes,

Diesel Fuel:	Clear and/or Dyed Diesel Fuel, Gasoline, Fuel Tax Credit accounts.
CNG Fuel:	LNG and/or CNG fuel, Fuel Tax Credit accounts.
Vehicle Replacement:	Equipment and Support Equipment depreciation accounts. Vehicle Rental Equipment accounts
Vehicle Maintenance:	Building (Maintenance), Tires, Parts & Supplies, Lubricants, Third Party Services, Other.
Processing Facility	See Processing Facility RRI
All Other:	List all other expense accounts related to the services provided under this Contract. Advertising Amortization Bad debt and collection charges Bank charges Building and repairs Computer costs Consulting and professional fees Depreciation Depreciation (non-vehicle) Donations and contributions Dues and subscriptions Environmental compliance Equipment - rental Equipment (Support) - tires, parts, supplies Fines and penalties Fuel (non-diesel and non-CNG) General yard repairs and maintenance Insurance (e.g., general liability, fire, truck damage, and extended coverage) Legal License fees Litigation settlements Lobbying Lubricants Meals and entertainment

Miscellaneous

Non-union labor wages and benefits (e.g., salaries, hourly wages, overtime, bonuses, commissions, safety expense and bonuses, other compensation, compensated absences and vacation, severance, health and welfare insurance, workers compensation premiums and claims, pension and retirement costs, payroll taxes, contract labor, and other employee costs)

Office supplies

Performance bond expense

Permits

Postage

Printing

Procurement card rebates

Real property rent

Registration

Security

Seminars and education

Site monitoring and testing

Taxes

Taxes (real and personal property)

Third party services

Travel

Utilities (e.g., telephone, electricity, gas)

Vehicle licenses and permits

Vehicle transportation costs - license fees, permits, insurance, bridge tolls

Workers compensation premiums and claims

Union labor Workers Compensation Premiums & Claims, Union Contract Labor, Safety Program Expense and Other Employee Costs (e.g., uniforms, boot allowance, tool allowance).

Government Fees – Processing:

See Table 2

Franchise Fees:

Franchise Fees payable to CITY pursuant to the Contract.

5. Processing Facility RRI embedded in RR RRI.

5.1. The Processing Facility RRI shall be calculated in the following manner:

- 5.1.1. There are six (6) Contractor Cost Categories for purposes of the Processing Facility RRI adjustment calculation: Processing Facility Union Labor, Diesel Fuel, CNG Fuel, Vehicle Replacement, Vehicle Maintenance and All Other.
- 5.1.2. Within each Cost Category are expenses generally described in the attached Operating Cost Statement – Description (the “Allowed Expenses”). Only these Allowed Expenses may be used by Contractor to calculate the annual total of each Cost Category.
- 5.1.3. CONTRACTOR will annually calculate each Cost Category’s item weight. For example, if the annual total of all Allowable Expenses of Diesel Fuel (a Cost Category) is \$100, and the annual total of all Allowable Expenses for all Cost Categories is \$2,000, Diesel Fuel’s weighted percentage factor is 5%.
- 5.1.4. Each Cost Category’s item weight is then multiplied by the percent change of its Cost Indicator to calculate its weighted percentage change. Each Cost Category’s review dates or review years are set forth below.

Table 7 – Processing Cost Category and Review Year or Date			
Item	Cost Category	Previous Review Date or Year	Current Review Date or Year
1	Processing Facility Union Labor	July 1 of previous calendar year	July 1 of current calendar year
2	Diesel Fuel	December 31 of next previous calendar year	December 31 of previous calendar year
3	CNG Fuel	December 31 of next previous calendar year	December 31 of previous calendar year
4	Vehicle Replacement	December 31 of next previous calendar year	December 31 of previous calendar year
5	Vehicle Maintenance	December 31 of next previous calendar year	December 31 of previous calendar year
6	All Other	December 31 of next previous calendar year	December 31 of previous calendar year

5.1.5 Each Cost Category's Cost Indicator is set forth in Section 5.2 below. For those Cost Categories using a review year, the percentage change is the difference in the annual average of the cost indicator index of the preceding review year and the annual average of the cost indicator index of current review year. For those Cost Categories using a review date, the percentage change is the difference in the cost indicator at the previous review date and the cost indicator at the current review date. For example, with regard to the Processing facility Union Labor Cost Category, the Cost Indicator is Wages, Health & Welfare and Pension costs under CWS, CBAs with Local 70, 1546 and 6 Clerical, Landfill and Recycling bargaining units. With regard to those Cost Indicators which are a published index, should such index be discontinued, a successor index shall be selected by mutual agreement of the parties. Successor indices shall be those indices that are most closely equivalent to the discontinued index.

5.1.6 The weighted percentage change of each Cost Category is then added together to calculate the RRI adjustment.

5.2. Processing Facility RRI Cost Indicators

<u>Cost Category</u>	<u>Cost Indicator</u>
Processing Facility Union Labor	Projected (as of March 1st preceding the review date to be effective as of the review date) total Union (Local 70, Local 1546, Local 6 Clerical, Local 6 Landfill, Local 6 Recycling) wage, health and welfare, and pension costs under CWS collective bargaining agreements for those employees domiciled at 1820 10th Street, Oakland , CA or 3300 Wood Street, Oakland, CA. Calculated pursuant to Section 5.3 below.
Diesel Fuel	Series ID: wpu057303 #2 Diesel Fuel (average for 12 months ending on the current review year)
CNG Fuel	Schedule G-NGV-1, compiled and published by the Pacific Gas and Electric Co. Analysis and Rate Department and reported monthly in the “Gas Rate Finder” publication (http://www.pge.com/tariffs) reflecting the sum of the Customer, procurement, transportation and public purpose program charges (average for 12 months ending on the current review year) .
Vehicle Replacement	Series ID: pcu336211336211 Truck, bus, car, and other vehicle bodies, for sale separately (average for 12 months ending on the current review year)
Vehicle Maintenance	Series ID: pcu3339243339243 Parts and attachments for industrial work trucks (average for 12 months ending on the current review year)
All Other	Series ID: cuura422sa0 Consumer Price Index, All Urban Consumers, All Items. San Francisco-Oakland-San Jose, CA (average for 12 months ending on the current review year)

5.3. Processing Facility Labor Cost Indicator. Annual changes to the Processing Facility Union Labor Cost Indicator shall be calculated by determining the total labor increase for each Union party to a collective bargaining agreement with CONTRACTOR, as follows:

5.3.1. Local 70 annual total labor increase shall be determined by calculating the percentage change of the sum of the All Classification straight time hourly wage rate, monthly health and welfare premium (as converted to a straight

time hourly rate), and the straight time hourly pension rate between the previous review date and the current review date. Since this calculation must be performed prior to the July 1st of the current review date, CITY and CONTRACTOR have agreed that the costs for the current review date shall be those costs that are projected as of March 1st preceding the current review date to be effective as of the current review date. Changes that become known after March 1st preceding the current review date shall be incorporated into the RRI adjustment in the next year with no provision for retroactive adjustments. The resulting year over year percentage change shall be multiplied by the percentage of Processing Facility Union Labor employees represented by Local 70.

5.3.2. Local 1546 annual total labor increase shall be determined by calculating the percentage change of the sum of the Journeyman classification straight time hourly wage rate, monthly health and welfare premium (as converted to a straight time hourly rate), and the straight time hourly pension rate between the previous review date and the current review date. Since this calculation must be performed prior to the July 1st of the current review date, CITY and CONTRACTOR have agreed that the costs for the current review date shall be those costs that are projected as of March 1st preceding the current review date to be effective as of the current review date. Changes that become known after March 1st preceding the current review date shall be incorporated into the RRI adjustment in the next year with no provision for retroactive adjustments. The resulting year over year percentage change shall be multiplied by the percentage of Processing Facility Union Labor employees represented by Local 1546.

5.3.3. Local 6 Clerical annual total labor increase for clerical employees shall be determined by calculating the percentage change of the sum of the CSR II classification wage rate, monthly health and welfare premium (as converted to a straight time hourly rate), and the straight time hourly pension rate between the previous review date and the current review date. Since this calculation must be performed prior to the July 1st of the current review date, CITY and CONTRACTOR have agreed that the costs for the current review date shall be those costs that are projected as of March 1st preceding the current review date to be effective as of the current review date. Changes that become known after March 1st preceding the current review date shall be incorporated into the RRI adjustment in the next year with no provision for retroactive adjustments. The resulting year over year percentage change shall be multiplied by the percentage of Processing Facility Union Labor employees represented by Local 6 Clerical.

5.3.4. Local 6 Landfill annual total labor increase for landfill employees shall be determined by calculating the percentage change of the sum of the HEO classification wage rate, monthly health and welfare premium (as converted to a straight time hourly rate), and the straight time hourly pension rate between the previous review date and the current review date. Since this

calculation must be performed prior to the July 1st of the current review date, CITY and CONTRACTOR have agreed that the costs for the current review date shall be those costs that are projected as of March 1st preceding the current review date to be effective as of the current review date. Changes that become known after March 1st preceding the current review date shall be incorporated into the RRI adjustment in the next year with no provision for retroactive adjustments. The resulting year over year percentage change shall be multiplied by the percentage of Processing Facility Union Labor employees represented by Local 6 Landfill.

5.3.5. Local 6 Recycling annual total labor increase for recycling employees shall be determined by calculating the percentage change of the sum of the Sorter and Operator classification wage rate, monthly health and welfare premium (as converted to a straight time hourly rate) and the annual pension contribution (as converted to a straight time hourly rate) between the previous review date and the current review date. Since this calculation must be performed prior to the July 1st of the current review date, CITY and CONTRACTOR have agreed that the costs for the current review date shall be those costs that are projected as of March 1st preceding the current review date to be effective as of the current review date. Changes that become known after March 1st preceding the current review date shall be incorporated into the RRI adjustment in the next year with no provision for retroactive adjustments. The resulting year over year percentage change shall be multiplied by the percentage of Processing Facility Union Labor employees represented by Local 6 Recycling.

Once the weighted percentage labor increase for each Union is determined, the above sums shall be added together to determine the overall weighted percentage change of the Processing Facility Union Labor Cost Category to be applied to the Processing Facility RRI adjustment calculation.

6. Processing Facility Operating Cost Statement – Description

Processing Facility Union Labor:	List all labor accounts for CWS employees domiciled at 1820 10th Street, Oakland , CA or 3300 Wood Street, Oakland, CA who are members of Local 70, Local 1546 and Local 6 Clerical, Local 6 Recycling and Local 6 Landfill. Wages – hourly & overtime, Bonuses, Commissions, Other Compensation, Compensated Absences & Vacation, Severance, Health & Welfare Insurance Premiums, Pension & Retirement Benefits, Payroll Taxes,
Diesel Fuel:	Clear and/or Dyed Diesel Fuel, Gasoline, Fuel Tax Credit accounts.
CNG Fuel:	LNG and/or CNG fuel, Fuel Tax Credit accounts.

Vehicle Replacement: Equipment and Support Equipment depreciation accounts.

Vehicle Rental Equipment accounts

Vehicle Maintenance: Building (Maintenance), Tires, Parts & Supplies, Lubricants, Third Party Services, Other.

All Other: List all other expense accounts related to the services provided under this Contract.

Advertising

Amortization

Bad debt and collection charges

Bank charges

Building and repairs

Computer costs

Consulting and professional fees

Depreciation

Depreciation (non-vehicle)

Donations and contributions

Dues and subscriptions

Environmental compliance

Equipment - rental

Equipment (Support) - tires, parts, supplies

Fines and penalties

Fuel (non-diesel and non-CNG)

General yard repairs and maintenance

Insurance (e.g., general liability, fire, truck damage, and extended coverage)

Legal

License fees

Litigation settlements

Lobbying

Lubricants

Meals and entertainment

Miscellaneous

Non-union labor wages and benefits (e.g., salaries, hourly wages, overtime, bonuses, commissions, safety expense and bonuses, other compensation, compensated absences and vacation, severance, health and welfare insurance, workers compensation premiums and claims, pension and retirement costs, payroll taxes, contract labor, and other employee costs)

Office supplies

Performance bond expense

Permits

Postage

Printing
Procurement card rebates
Real property rent
Registration
Security
Seminars and education
Site monitoring and testing
Taxes
Taxes (real and personal property)
Third party services
Travel
Utilities (e.g., telephone, electricity, gas)
Vehicle licenses and permits
Vehicle transportation costs - license fees, permits, insurance, bridge tolls
Workers compensation premiums and claims
Union labor Workers Compensation Premiums & Claims, Union Contract Labor, Safety Program Expense and Other Employee Costs (e.g., uniforms, boot allowance, tool allowance).

7. **Special Unit Count Adjustments.** The provisions of this Section 7 of Exhibit 2 shall be implemented subject to approval by City Council of Section 7.08.4 of the Contract through an amendment to Ordinance No. 13274 C.M.S., no later than December 31, 2015. Table 7 and the accompanying notes provide an example of how the special unit count adjustments, if approved, will be implemented. As is shown in Table 8, the special unit count adjustment will be calculated after the annual rate adjustment and all other special adjustments.

Residential Recycling Collection Services Contract

	C	D	E	F	G	H	I	J	K
3	Table 8 - Example of Special Unit Count Adjustment Calculations								
4	Contract Year	1	2	3	4	5	6	7	8
5		FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE
6		June 2016	June 2017	June 2018	June 2019	June 2020	June 2021	June 2022	June 2023
7	Annual Growth %		0.46%	0.02%	0.58%	1.29%	0.20%	1.65%	0.44%
7	Unit Count								
8	SFD Base Count	102,274	102,274	102,274	102,274	102,274	102,274	102,274	102,274
9	MFD Base Count	62,965	62,965	62,965	62,965	62,965	62,965	62,965	62,965
10	Total Base Count	165,239	165,239	165,239	165,239	165,239	165,239	165,239	165,239
11	April SFD Count	101,691	101,691	101,691	101,691	101,691	101,691	101,691	101,691
12	April MFD Count	55,614	56,334	56,367	57,281	59,331	59,651	62,321	63,035
13	April Total Count	157,305	158,025	158,058	158,972	161,022	161,342	164,012	164,726
14	April Unit Count %	95.20%	95.63%	95.65%	96.21%	97.45%	97.64%	99.26%	99.69%
15	Estimated Annual Rate Adjustment		4%	4%	4%	4%	4%	4%	4%
16		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
17	SFD Rates	\$ 8.85	\$ 9.54	\$ 11.26	\$ 13.05	\$ 14.92	\$ 15.84	\$ 16.48	\$ 17.14
18	Local 6 Special Adjustment	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32			
19	\$0.97 Special Adjustment	\$ 0.97	\$ 0.97	\$ 0.97	\$ 0.97				
20	Unadjusted SFD Rate	\$ 9.17	\$ 10.83	\$ 12.55	\$ 14.34	\$ 15.24	\$ 15.84	\$ 16.48	\$ 17.14
21	Unit Count Adjustment		\$ 0.96	\$ 0.57	\$ 0.57	\$ 0.40	\$ 0.38	\$ 0.12	\$ -
22	Adjusted SFD Rate		\$ 11.79	\$ 13.12	\$ 14.91	\$ 15.64	\$ 16.22	\$ 16.60	\$ 17.14
23									
24	MFD Rates	\$ 8.85	\$ 9.57	\$ 11.32	\$ 13.15	\$ 15.05	\$ 16.01	\$ 16.65	\$ 17.32
25	Local 6 Special Adjustment	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35			
26	\$0.97 Special Adjustment		\$ 0.97	\$ 0.97	\$ 0.97				
27	Unadjusted MFD Rate	\$ 9.20	\$ 10.89	\$ 12.64	\$ 14.47	\$ 15.40	\$ 16.01	\$ 16.65	\$ 17.32
28	Unit Count Adjustment		\$ 0.96	\$ 0.58	\$ 0.57	\$ 0.41	\$ 0.39	\$ 0.13	\$ -
29	Adjusted MFD Rate		\$ 11.85	\$ 13.22	\$ 15.04	\$ 15.81	\$ 16.40	\$ 16.78	\$ 17.32
30									
31	Annual Base Revenue	\$ 18,205,567	\$ 21,514,357	\$ 24,955,498	\$ 28,534,285	\$ 30,332,842	\$ 31,546,155	\$ 32,808,002	\$ 34,120,322
32	Cumulative Base Revenue	\$ 18,205,567	\$ 39,719,924	\$ 64,675,422	\$ 93,209,707	\$ 123,542,549	\$ 155,088,704	\$ 187,896,706	\$ 222,017,028
33	Billed Gross Revenue	\$ 17,329,863	\$ 22,392,681	\$ 24,954,517	\$ 28,534,399	\$ 30,334,802	\$ 31,541,339	\$ 32,807,666	\$ 34,014,974
34	Cumulative Billed Gross Revenue	\$ 17,329,863	\$ 39,722,544	\$ 64,677,060	\$ 93,211,459	\$ 123,546,261	\$ 155,087,600	\$ 187,895,266	\$ 221,910,240
35									
36	Annual Overage/(Shortfall)	\$ (875,704)	\$ 878,324	\$ (981)	\$ 113	\$ 1,960	\$ (4,817)	\$ (336)	\$ (105,347)
37	Cumulative Overage/(Shortfall)	\$ (875,704)	\$ 2,620	\$ 1,639	\$ 1,752	\$ 3,712	\$ (1,104)	\$ (1,440)	\$ (106,788)
	Assumptions								
	1. The Base Unit Count shall not change.								
	2. The annual growth in April Unit Count in this model is included as an example of how the Unit Count adjustment process works. In this example, all unit count growth has been assigned to MFD units. The actual April Unit Counts will vary from these examples as discussed in Note 3.								
	3. The April Unit Count for Year 1 shall not change. Beginning with Contract Year 2, the April Unit Count will be adjusted to reflect the actual Unit Count billed in the April billing cycle of each Contract Year as determined by the Unit Count Review. Once the April Unit Count of any Contract Year has been set as a result of the Review, that April Unit Count shall not be adjusted further for purposes of calculating a One-Time Adjustment.								
	4. Annual Base Revenue shall be based on the Base Unit Count and the Adjusted SFD and MFD Rates.								
	5. Billed Gross Revenue shall be based on the April Unit Count, as adjusted based on the Review and the Adjusted SFD and MFD Rates.								
	6. The Cumulative Overage/(Shortfall) should be as small a number as possible using whole numbers for the Unit Count Adjustment (Rows 21 and 28).								
	7. For purposes of this example, the annual rate adjustment is set at four (4) percent per year thereafter. The actual annual rate adjustment will vary from these numbers.								
	8. For purposes of this example, the unadjusted SFD and MFD rates include the deferred CPI adjustment from Table 5. The deferred CPI adjustment will be calculated as set forth in Table 5 of this Exhibit.								
	One-Time Adjustment Calculation								
	9. Beginning with Contract Year 2, (FYE June 2017) adjust the April SFD and April MFD Unit Count (Rows 11 & 12) to reflect the results of the April Review.								
	10. Beginning with Contract Year 2, (FYE June 2017) adjust the Estimated Annual Rate Adjustment percentage (Row 15) to reflect the actual adjustment as calculated in accordance with Article 7.								
	11. Adjust the SFD and MFD Unit Count Adjustment amount (Rows 21 & 28) for the Review Contract Year, using numbers rounded to the hundredth (\$0.00) and keeping the SFD and MFD adjustment within \$0.01 of each other, so that the Cumulative Overage/(Shortfall) amount for that year is as close to \$0.00 as possible.								
	12. No further adjustments shall be calculated or made once the Total April Unit Count for the Review Contract Year is equal to or greater than 99.5% of the Total Base Unit Count. (See April Unit Count % - Row 14)								