



**To:** Mark Gagliardi, City of Oakland  
**From:** Richard Tagore-Erwin, Jared Zitron  
**Date:** May 26, 2011  
**Subject:** Normalizing WMAC Revenues

The purpose of this memo is to describe and verify the methodology used to normalize Waste Management of Alameda County's (WMAC) 2003 to 2008 solid waste revenues in order to isolate the underlying change in solid waste services book of business. In summary, this has been done by subtracting the financial gains due to annual rate adjustments as well as any fees paid by WMAC to the City of Oakland (City) from WMAC's franchise revenues. The data analyzed in this memo has been provided by the City, and is included in Attachment 1. The calculations in this memo have not incorporated any increases in Measure D fees, nor do they incorporate any one-time pass-through fees that WMAC may have paid within the six year period.

## Methodology

### WMAC Revenue due to Rate Adjustments

WMAC's reported franchise revenues for fiscal years (FY) 2003 through 2008 are as follows:

**Table 1**  
**WMAC Franchise Revenues**

Service	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09
Single Family (1-4 units)	\$27,987,167	\$30,032,723	\$32,032,929	\$31,809,104	\$32,195,374	\$36,071,734
Multi Family (5+ units)	\$15,244,208	\$15,720,728	\$16,671,982	\$16,271,859	\$16,369,306	\$17,050,132
Commercial	\$18,926,305	\$18,534,076	\$18,889,204	\$19,626,321	\$20,330,165	\$19,696,654
Roll Off	\$11,005,640	\$11,279,520	\$11,322,223	\$11,842,860	\$11,339,130	\$9,564,795
<b>Total</b>	<b>\$73,163,320</b>	<b>\$75,567,047</b>	<b>\$78,916,338</b>	<b>\$79,550,144</b>	<b>\$80,233,975</b>	<b>\$82,383,315</b>

The total increase in revenue from FY 2003 to FY 2008 was 12.6 percent. Table 2, below, shows the rate adjustments based on changes in the CPI during the six year period:

**Table 2**  
**Percent Increases in Revenue due to CPI Rate Adjustments**

Service	Percent Change in CPI					
	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09
Single Family (1-4 units)	7.47%	7.51%	7.07%	1.70%	2.38%	2.61%
Multi Family (5+ units)	7.47%	3.49%	3.05%	1.70%	2.38%	2.61%
Commercial	7.47%	1.57%	1.13%	1.70%	2.38%	2.61%
Roll Off	7.47%	1.57%	1.13%	1.70%	2.38%	2.61%

To calculate WMAC's revenues without increases due to CPI rate adjustments, the franchise revenue was divided by one (1) plus the percent change in rates due to the CPI. For example, Single-Family service in FY 2003 generated a total of \$27,987,167 for WMAC; however, the CPI rate adjustment for that year resulted in a 7.47 percent increase. Therefore, \$27,987,167 divided by one (1) plus 7.47 percent is equal to \$26,041,841. This value (\$26,041,841) represents the revenue that was generated by WMAC without the increase due to the rate adjustment. Table 3, below, shows the results of this calculation for each service within the six year period:

**Table 3**  
**WMAC Franchise Revenues minus Revenues due to CPI Rate Adjustments**

Service	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09
Single Family (1-4 units)	\$26,041,841	\$27,934,818	\$29,917,744	\$31,277,389	\$31,446,937	\$35,154,209
Multi Family (5+ units)	\$14,184,617	\$15,190,577	\$16,178,537	\$15,999,861	\$15,988,773	\$16,616,443
Commercial	\$17,610,780	\$18,247,589	\$18,678,141	\$19,298,251	\$19,857,555	\$19,195,648
Roll Off	\$10,240,663	\$11,105,169	\$11,195,711	\$11,644,897	\$11,075,532	\$9,321,504
<b>Total</b>	<b>\$68,077,901</b>	<b>\$72,478,153</b>	<b>\$75,970,134</b>	<b>\$78,220,397</b>	<b>\$78,368,798</b>	<b>\$80,287,803</b>

The total increase in revenue from FY 2003 to FY 2008 was 17.9 percent.

### **WMAC Revenue due to City Fees**

Based on the information provided by the City, it is R3's understanding that WMAC has paid the following City fees and that these fees were absorbed in customer rates.

- \$3.5 million each year for FYs 2003 to 2008; and
- An additional \$750 thousand for FYs 2005 and 2006.

To calculate WMAC's revenues without increases due to City fees, the fees were subtracted from the total revenue for each applicable fiscal year. For example, WMAC paid the CITY \$3.5 million in FY 2003, which was incorporated into WMAC's customer rates. WMAC's revenue without the rate increase due to City fees is equal to \$68,077,901 minus \$3.5 million, which is equal to \$64,577,901. This calculation was completed for each year of the six year period.

### **Summary Analysis**

To normalize WMAC's 2003 to 2008 solid waste revenues in order to isolate the underlying change in solid waste services book of business, increases in WMAC's revenues due to CPI rate adjustments and City fees were subtracted from WMAC's total revenues. Table 4, below, shows WMAC's total franchised revenues, the total revenue increases due to rate adjustments and City fees, and WMAC's franchised tonnages:

**Table 4**  
**WMAC Revenues and Tonnages**

	<b>FY 03-04</b>	<b>FY 04-05</b>	<b>FY 05-06</b>	<b>FY 06-07</b>	<b>FY 07-08</b>	<b>FY 08-09</b>	<b>% Change Over Period</b>
<b>Total Franchised Revenues</b>	\$73,163,320	\$75,567,047	\$78,916,338	\$79,550,144	\$80,233,975	\$82,383,315	12.6%
<b>Revenues Increases due to Rate Adjustments</b>	\$5,085,419	\$3,088,894	\$2,946,204	\$1,329,747	\$1,865,177	\$2,095,512	N/A
<b>Revenues Increases due to City Fees Absorbed in Rates</b>	\$3,500,000	\$4,250,000	\$4,250,000	\$3,500,000	\$3,500,000	\$3,500,000	N/A
<b>Total Revenues with no Rate Increases and no City Fees</b>	\$64,577,901	\$68,228,153	\$71,720,134	\$74,720,397	\$74,868,798	\$76,787,803	18.9%
<b>Total Franchise Tonnages</b>	250,772	240,597	224,962	218,909	217,890	203,590	-18.8%

As seen above, WMAC's revenue between 2003 and 2008 without additions due to rate adjustments and City fees has increased by approximately 18.9 percent. During this period, WMAC's franchised tonnages decreased by approximately 18.8 percent. Between FYs 2003 and 2008, WMAC's revenue has increased by essentially the same percentage as their franchised tonnage decrease.

If you have any questions, please call us at 916-576-0306. Thank you.

**Attachment 1 – Data provided by City; R3 Tables**

