Exhibit B

Franchise Zone 2 Rate Methodology

Rates chargeable to Franchisee's customers in Franchise Zone 2 shall be established pursuant to the methodology set forth herein.

I. The rates charged by Franchisee for its collection services rendered in accordance with the Agreement may be adjusted annually. Except as provided in section 4(e) of the Agreement, said rate adjustment shall be made only when such adjustment is justified by a Rate Proposal Application package submitted by Franchisee on or before April 15th of each year to the Board of Supervisors for their approval on or before July 1st. Any such adjustments approved by the Board of Supervisors shall take effect on July 1.

II. Definitions

A. Rate Proposal: The submitted Rate Proposal Application supporting Franchisee's request for a rate adjustment shall include, but not be limited to the following:

1. Audited financial statements for Franchisee and any subsidiary companies of Franchisee, or reviewed financial statements with a copy of the detail transactions for Franchisee and any subsidiary companies of Franchisee.

2. Supporting documents for all transactions with affiliate companies.

3. Supporting documentation (invoices) for all purchases of fixed assets.

4. Depreciation schedules for all owned fixed assets.

5. Supporting documentation for all other additional adjustments to income or expense.

6. Any other information deemed necessary by County for the review of the Rate Proposal Application and its supporting documentation.

B. Operating Ratio: The target ratio used to calculate the desired revenue level for Franchisee sufficient to cover allowable costs of operations plus a reasonable profit. However, disposal charges and other noted expenditures shall be capped at designated amounts as stated below. The

County has reasonable discretion to adopt a cap on the volume of tonnage eligible for profit, as well as other expenditures, while ensuring an overall rate of return as set forth in the methodology.

C. Desired Revenue Level: The level of revenues that will produce the target operating ratio defined above.

D. Revenue Deficiency: The difference between the actual test year revenue and the desired revenue level calculated using the target operating ratio.

E. Revenue Deficiency Percentage: The percentage of revenue deficiency as computed by dividing the revenue deficit (surplus) by the actual test year revenues.

F. Allowable Costs: Those costs which are allowed as costs to be recovered by the rates described in Section III and are allowed an operating ratio.

G. Recoverable Costs: Those costs which are allowed as costs to be recovered by the rates described in Section III, but are not allowed an operating ratio.

H. Nonrecoverable Costs: Those costs which are not allowed as costs to be recovered by the rates described in Section III.

III. Guidelines for Setting Rates

A. Basis for the Rates: The basis for the rates, revenues and costs shall be the financial statements of Franchisee as provided for in Section II.A.1 above, which shall be provided annually to the County. In addition, Franchisee shall submit financial statements as provided for in Section II.A.1 above for companies affiliated with Franchisee. Common costs incurred between Franchisee and it's affiliates shall be allocated based on a portion of revenues received or other equitable and agreed upon means.

Landfill disposal fees will be lowest reasonable cost approved by County and agreed to by Franchisee (see Section III.C.2.a.).

The annual rate package submitted by Franchisee shall be in a format illustrating the income statement, balance sheet and statement of cash flows consistent with the methodology set forth herein. All expenses listed under "Allowable Costs" shall be consistent with the definition of allowable costs as set forth below. All other expenses shall be listed as other costs. An example of the recommended format is set forth in Exhibits B-1 through B-4 attached hereto.

Franchisee rates for services, including both current and future rates in effect for the duration of the Agreement, shall meet the following condition:

Provide Franchisee with a gross operating ratio, which is currently determined to be 89%. This ratio shall be subject to change at the reasonable discretion of the Board of Supervisors. The gross operating ratio shall be a benchmark ratio computed for rate-making purposes as follows:

Operating	=	<u>Rate Year Adjusted Expenses</u>
Ratio	=	Rate Year Adjusted Revenues

B. <u>Revenues</u>: Allowable revenues shall include all revenues received by Franchisee as recorded on the audited financial statements, including but not limited to the revenues listed below:

1. Garbage Collection and Disposal Revenue
2. Insurance Refunds
3. Sales of Fixed Assets
4. All other revenue related to Franchisee's operating activities.

Allowable revenues shall exclude interest revenue received by Franchisee.

C. <u>Allowable Costs</u>: Allowable Costs shall include costs reasonably incurred by Franchisee in performing services under the franchise as recorded on Franchisee's audited financial statements. The costs recorded on the audited financial statements are presumed to be reasonable absent a showing by County of any unreasonableness.

1. Allowable Costs include:

   a) <u>Salaries and Benefits</u>: Franchisee's allocated share of the salaries and benefits paid to all employees of Franchisee shall be recovered in the rates set by County; provided, however, that under no circumstances shall the allowable allocated cost of Franchisee's employees salaries and benefits be less than $525,000 per year, unless the number of employees is reduced in which case the amount allocated to employees salaries and benefits shall be reduced accordingly. For the calendar year ending December 31, 2009 projections, the amount of Franchisee's employees salaries and benefits allowed as an expense for rate setting purposes shall be $525,000. In subsequent years, the allowable cost of employees salaries and benefits shall be adjusted upward from the prior year by the percentage increase, if any, in the cost of living during the year as reflected by the percentage increase in the level of the Consumer Price Index for all urban consumers for the U.S. City Average, as reported by the Bureau of Labor Statistics (or its successor) of the United States Department of Labor from December of the prior year to December of the current year. Franchisee shall provide County a copy of the Table from the CPI Book; provided, however, that the allowable cost of employees salaries and benefits shall in no event be adjusted downward in subsequent years by reason of a percentage decline in the level of the Consumer Price Index. Employees' salaries and benefits shall remain the same upon the termination of an employee and shall not increase if additional people are employed.

b) Taxes and Fees: All government imposed taxes and fees except State and Federal income taxes.

c) Disposal Charges: All charges imposed by County approved disposal sites and or transfer sites.

d) Insurance Costs: All insurance costs, including liability, worker's compensation, vehicle and umbrella liability insurance.

e) Operating Costs: All other operating costs, including gas and diesel, tires and tubes, and repair and maintenance.

f) Depreciation: Depreciation expenses for those assets owned by Franchisee. Depreciation shall be calculated on straight-line basis. Franchisee shall provide a copy of the depreciation schedule. Trucks shall be determined to have a useful life of 5 years for depreciation purposes. All other assets, excluding structures and leasehold improvements, shall be determined to have a useful life of 3 years. Structures and leasehold improvements shall be determined to have a useful life of 30 years. For any anticipated purchases, only one half of the first year of depreciation shall be allowable within the rate. The anticipated purchases shall only be allowable to the extent that the ratepayer will benefit from the purchase. Franchisee shall provide a listing of anticipated purchases a reasonable time in advance of acquisition, including estimated cost, life and depreciation expense at half a year.

g) Equipment costs: Equipment lease costs represent amounts paid to affiliates and other entities for the use of equipment owned by those entities. Intercompany profits on lease costs paid to affiliate entities shall be eliminated. The allowable amount is limited to $4,000 per year.

h) Rent for land and facilities: This rent includes rent paid affiliated entities and other rents. The allowable amount is limited to $15,000 per year. Amounts in excess of $15,000 are recoverable.

i) Administration, General, and Professional Fees: Costs associated with complying and responding to governmental regulation and requirements, accounting and legal fees. Any amounts in excess of the limit established shall be allowed recoverable costs, but shall not be subject to a profit.

j) State Water Resources Control Board Fee; Waste Discharge Requirement/inspection fee shall be a recoverable cost, but shall not be subject to a profit.

k) Hazardous Waste Clean-up and Extraordinary Expense: Clean-up costs associated with hazardous wastes, household hazardous waste programs, or other extraordinary expense imposed on Franchisee shall be allowed recoverable costs, but shall not be subject to a profit.

l) Clean-up costs: Remediation costs, including but not limited to soil and groundwater clean-up costs, shall be allowed recoverable costs, but shall not be subject to a profit.

2. Limited Expense: The following expenses shall be limited to the amount of profit earned. Any amounts in excess of the limits may be allowed recoverable costs, but shall not be subject to a profit:

a) Landfill Costs – Landfill expenses shall be allowable up to and equal to the lowest cost approved by Franchisee and County with an aggreed upon tipping fee. All landfill expenses exceeding the limit shall be recoverable, but not allowable for the application of the Operating Ratio.

b) Legal Costs – Legal expenses shall be allowable up to $10,000. All legal expenses exceeding the limit shall be recoverable, but not allowable for the application of the Operating Ratio.

c) Accounting Costs - Accounting expenses shall be allowable up to $5,000. All accounting expenses exceeding the limit shall be recoverable, but not allowable for the application of the Operating Ratio.

d) Other Professional Fees – Other professional expenses shall be allowable up to $1,000. All other professional expenses exceeding the limit shall be recoverable, but not allowable for the application of the Operating Ratio.

e) Bad Debt – Bad debt expenses shall be allowable up to $500. All other bad debt expenses exceeding the limit shall be recoverable, but not allowable for the application of the Operating Ratio.

f) Rent – Rent expenses for shop and parking shall be allowable up to and equal to $15,000. All shop and parking rent expenses exceeding the limit shall be recoverable, but not allowable for the application of the Operating Ratio.

g) Equipment Rent - Equipment rent expenses shall be allowable up to and equal to $4,000. All equipment rent expenses exceeding the limit shall be recoverable, but not allowable for the application of the Operating Ratio. Any intercompany leases shall be considered a recoverable costs and not allowed to apply to the Operating Ratio.

3. The following expenses shall be explicitly excluded from Allowable Costs and shall be deemed Nonrecoverable:

a) Interest expense [except the amount that pertains to a low interest-bearing loan obtained to pay the amount of post-closure monitoring and maintenance costs for the Steele Canyon Landfill].

b) Penalties.

c) Federal or State income taxes.

d) Contributions, entertainment and promotional expenses defined as any costs that appear in these expense account classifications.

It is not the intent of the County to include all types of costs as recoverable through rates charged to the public. Increases in costs due to Franchisee inefficiencies, or a decision by management to increase certain controllable costs will not be borne by the ratepayers.

IV. Rate Changes

Rates may be adjusted annually using the approved methodology as established by this Exhibit. New rates, if any, shall take effect on July1. This method uses audited expenses and revenues as base-year costs, adjusts these costs to include only allowable costs and revenues described above, and calculates an adjusted base-year income statement. Adjusted revenues shall be increased by the county's annual growth rate as obtained from the Napa County Conservation, Development and Planning Department. Adjusted expenses shall be increased by the level of the Consumer Price Index for all urban consumers for the U.S. City Average, as reported by the Bureau of Labor Statistics (or its successor) of the United States Department of Labor from December of the prior year to December of the current year. Additional adjustments to base-year costs shall be included if these costs are known, identifiable, and readily measurable at the time the rate application is submitted. Such costs, which are not fully reflected in the fiscal year-end audited financial statements, shall be annualized and made part of the rate adjustment proposal as an "other adjustment" to adjusted (allowable) base-year costs. County shall make the determination of known and readily measurable cost increases.

These adjustments and escalations will produce a test year income statement. The following calculation shall be made to determine the desired revenue level defined in Section II.

$$\text{Desired Revenue level} = \frac{\text{Total Test Year Operating Expenses}}{\text{Operating Ratio}}$$

The revenue surplus (deficiency) defined in Section II shall be calculated follows:

Actual Test Year Revenue
\- Desired Revenue Level
= Revenue Surplus (Deficiency)

The percentage of rate adjustment defined in Section II shall be calculated as follows:

$$\frac{\text{Revenue Surplus (Deficiency)}}{\text{Actual Test-year Revenues}} = \text{Revenue Deficiency Percentage}$$

If, in any given fiscal year, such cumulative annual costs become excessive (greater than or equal to CPI for the year), Franchisee shall be entitled to apply for a rate adjustment.

Mathematical errors in schedules or an incomplete rate proposal package submitted to County shall be returned to Franchisee for correction. Franchisee shall assume full responsibility for time delays resulting from such errors.

V. Changes to Procedures – Any changes to procedures set forth in this Methodology shall include new regulatory requirements affecting the cost of Franchisee's franchise operations.