

March 15, 2011

Mr. Robert Samario
Finance Director
City of Santa Barbara
735 Anacapa Street
Santa Barbara, CA 93101

Dear Bob:

This letter serves to memorialize our conversation on Wednesday, March 9, 2011 regarding the City's request for Allied Waste to surrender \$60,387 in guaranteed revenues from our business sector collection activities for fiscal year 2012. You have requested this concession in light of the fact that the City has experienced a decline in revenues from hauling services in the business sector.

We understand that you are moving quickly to get a final Proposition 218 notice to our customers and that staff does not have enough time to determine the impacts of all of the various forces that may be negatively impacting revenues in the business sector. These forces include, but are not limited to, Environmental Services staff efforts (beginning in earnest in early 2009 to get businesses to maximize their recycling and right-size their service levels in advance of the new rates taking effect), the Council-approved November 2009 rate changes (making recycling, foodscrap and greenwaste 85% less expensive than trash service), and the current economic climate.

As we discussed, we believe it is important to note that when the City was split into two zones in 2003, with MarBorg assuming Zone 2 or the eastern half of the City, the differential in total monthly revenues was approximately \$5,000 in their favor. However, over the ensuing several years this difference grew by many tens of thousands of dollars per month in MarBorg's favor. For such a dramatic increase in Zone 2 revenues to have occurred, staff suspected that a good deal of trash and recycling capacity was being sold to Zone 2 customers that was not warranted or needed by the customer. Fast forward to the present and it appears that our intuitions were on the mark. As noted by ES staff earlier this month, the total business shortfall on MarBorg's side of the City is approximately \$460,000 per year, or nearly 4 times that of our shortfall. It is clear that customers in Zone 2 have right-sized their services and maximized recycling in response to ES outreach efforts, the new rates and the economy. I am pleased to say that Allied Waste did not oversell its customers during the past 8 years of our contract.

We are willing to assist the City with this shortfall because we are your partner. We are proud to have provided these critical services to the City of Santa Barbara and ratepayers for the past 39 years. Finally, we look forward to revisiting the data in the fall to better understand the relative impacts of the various factors at play to determine if further concessions, or a rate increase, will be warranted for FY 2013.

Sincerely,

Stephen MacIntosh
General Manager

cc: Jim Armstrong, City Administrator
Kristy Schmidt, Employee Relations Manager
Matt Fore, Environmental Services Manager