

Burien

From: on behalf of Burien
To: Ed Dacy
Cc: Tabatha Miller
Subject: RE: Waste Management Contract Changes

Mr. Dacy:

Your email will appear in a future Council packet as Correspondence for the Record. I have also forwarded your question to our Finance Director for response.

Janet S.

From: Ed Dacy [mailto:EdDacy@msn.com]
Sent: Thursday, November 06, 2008 11:30 AM
To: Burien
Subject: Waste Management Contract Changes

Dear Burien City Council,

I have two questions on the price adjustment formula in the contract adjustment for Waste Management.

First of all I will admit that I did not read the formula, but have the questions from the presentation to the council on November 3rd.

1. The formula has 3 factors CPI, Wage and Fuel. I am concerned, does it double count wage and fuel since those are major components of most price indexes?
2. In recent past Japan has experienced deflation and some economists are talking about the possibility of deflation in Europe, and we are not immune from it. Does this 3 factor formula allow a decrease in garbage rates if the formula gives a negative number?

Ed Dacy
Burien, WA

CFTR: 11/17/08

From: Tabatha Miller
Sent: Wednesday, November 12, 2008 5:59 PM
To: EdDacy@msn.com
Cc: Janet Stallman
Subject: RE: Waste Management Contract Changes

Mr. Dacy,

Thank you for raising these questions, my responses correspond to your numbered questions:

1. The Waste Management contract "Inflation Adjustment Factor" doesn't double count fuel and wage cost, but certainly weighs those two factors more heavily in the inflationary adjustment.

The Waste Management Inflation Adjustment Factor formula is the weighted average of the percentage difference between the three indices most recent year-end values and the prior year. The indices and their weights are as follows:

CPI-W for Seattle-Tacoma-Bremerton Second half - 42%
Energy Information Agency annual West Coast Retail Price for On-Highway Diesel Fuel - 8%
Employment Compensation Cost Index for Private Industry, Trade, Transportation & Utilities - 50%

As an example – if rates were adjusted in 2008 (based on year-end 2007) under this clause:

CPI-W Seattle, Tacoma Bremerton increase was 3.8% Source:
<http://www.bls.gov/ro9/9250.pdf>

West Coast On-Highway Diesel was 20.8% Source:
<http://tonto.eia.doe.gov/dnav/pet/hist/DDR006W.htm>

Employment Cost for Trade, Trans. & Utilities was 2.4% Source:
<ftp://ftp.bls.gov/pub/suppl/eci.echistrynaics.txt>

The adjustment in this example would be $(.42*.038)+(.08*.208)+(.50*.024) = .0446$ or 4.46%

As you point out, fuel is directly included as a component in the CPI-W and fuel costs are indirectly incorporated into components like public transportation, and other products and services that make up CPI-W. Likewise, labor is incorporated into the cost of services and products which are direct components of the CPI-W. However, this heavier weighting doesn't seem unreasonable in that fuel and labor most likely impact Waste Management's costs to a higher degree than the Regional CPI-W (which focuses on consumer spending) addresses.

2. Yes – if the weighted average of the percentage differences of the above indices was negative, fees could decrease accordingly. The amendment actually refers to the "increase or decrease each year".

Tabatha Miller

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