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COMMERCIAL PROPERTY MAINTENANCE

December 8, 2008

Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Members of the Air Resources Board:

As President of the North American Power Sweeping Association (NAPSA) I have become increasingly alarmed by the information coming from our California members. I am also getting inquires from members in other states worried about the future of our industry if these regulations move east.

Our industry has a history of benefiting the environment long before the "Green" movement became fashionable. Street sweeping actually dates back over 200 years with Benjamin Franklin credited with the first organized efforts in the U.S.

The cost of new street sweepers exceeding $250,000 necessitates members taking extra care to ensure the longevity of the units or to buy sweepers that municipalities have fully depreciated. 100% of our members can be classified as small business. It is our position that even the oldest, most polluting sweepers operated by our members have a significant "net benefit" to both air and water pollution. The forced early retirement of even one sweeper is detrimental to the goal of cleaner air.

Some estimates put sweepers picking up 10-30 times the PM they produce. (PM10 and PM2.5) When re-entrainment is considered, conceivably over 1,000 trucks must be removed from the road to break even for every <u>one</u> street sweeper removed. The forced retirement of hundreds of sweeping units could conceivably negate billions of dollars of upgrades by the affected industries.

The NAPSA CA Chapter retained the services of a CPA Certified in Financial Forensics and Accredited in Business Valuation to evaluate the impact of this rule on the industry. A cross section of sweeping firms across California submitted federal tax returns, financial data and fleet make up. Each of the firms has been profitable and a minimum of a decade in business. I hope two key sentences from the CPA's report will jump out at you: "The earnings of the companies over the next several years would be inadequate to meet the debt service resulting from the extraordinary capital expenditures required by the legislation" and "None of the companies would be able to absorb such cost in a way that allows them to continue to operate."

Even CARB staff acknowledges in Appendix M that "....cash flow would always remain positive ***except in a few key years***". How do our members stay in business or get financing with those projections? Faced with purchasing new sweepers at twice the price of most trucks or retrofit-repowers for two engines per sweeper, the burden is much greater than similar sized truck fleets. Requiring private sweeper fleets to replace or upgrade at an accelerated pace creates financial, safety and liability issues that will ultimately have negative consequences to our industry, the public and the environment.

As the only vehicle that actually cleans the air as it works, I urge you exempt street sweepers from the pending rule. Doing otherwise will be counter to your goal of cleaner air and add additional burden to other industries to make up the difference.

Sincerely,

S. Dale McCaskill Sr.

President

NAPSA "Committed to industry excellence and education"
North American Power Sweeping Association

Enclosure CPA Financial Impact Analysis

December 1, 2008

North American Power Sweeping Association, California Chapter
Jay Wells, Head Chairman
Mark Carter, Vice-Chairman
Rick Richardson, Vice-Chairman
Ken Lindsey, Vice-Chairman
Mike DeLucchi, Treasurer
Tom Tanner, Secretary
5425 Marmith Avenue
Sacramento, CA 95841

Re: Financial Impact Analysis – California Air Resources Board Pending Legislation

Dear Sirs:

Previously you engaged me to perform an analysis of the financial impact of pending legislation proposed by the California Air Resources Board. The California Air Resources Board has made certain changes to the pending legislation. The purpose of this report is to express my opinion regarding the financial impact of the revised proposed legislation.

QUALIFICATIONS

I am a licensed Certified Public Accountant in the state of California. My relevant education includes a Bachelor of Accounting, a Masters in Business Administration and a Masters in Taxation. I have also received the ABV (Accredited in Business Valuation) and CFF (Certified in Financial Forensics) designations issued by the American Institute of Certified Public Accountants. I have been in practice for fifteen years. My practice concentration is forensic accounting, business valuation and financial analysis for purposes of litigation. I have provided expert witness testimony regarding complex accounting and financial issues before the California Superior Courts in the counties of Sacramento, Placer, Solano, San Joaquin and El Dorado.

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CONCLUSION

Based upon the analysis performed it is my opinion that the proposed changes to the pending legislation do not alter the fact that the legislation would, in effect, put smaller independent sweeping companies out of business. The earnings of the companies over the next several years would be inadequate to meet the debt service resulting from the extraordinary capital expenditures required by the legislation.

The proposed changes, in effect, defer a portion of the expenditures required for the sweepers to become compliant. Additionally, the proposed changes attempt to make the costs of implementation lower as a result of increasing supply of used sweepers. However, the necessary capital expenditures, even as revised for such proposed changes, are simply too extraordinary relative to the earnings and the normal expenditures of the companies. None of the companies would be able to absorb such cost in a way that allows them to continue to operate.

DISCUSSION

As stated in my previous report, I analyzed the financial impact of the previously proposed legislation on a number of independent street sweeping companies. In summary, my previous analysis indicated that such legislation would, in effect, put each of the companies analyzed out of business.

The proposed changes to the legislation include a provision allowing companies the ability to operate their tier 0 dual-engine sweepers up to 250 hours per year from January 1, 2010 to January 1, 2014. The ability to use their existing machines on a limited basis would allow sweeper companies to defer full replacement of their fleets. Additionally, it has been proposed that municipal sweepers would be allowed to sell their 2004 thru 2006 model year engines within California and to receive retirement credits towards the municipal regulation. This change would benefit sweeper companies by making a greater supply of machines available for purchase and thereby reducing the cost to the sweeping companies.

Based upon the proposed changes to the pending legislation I modified my analysis to reflect the impact of such changes. Those changes are as follows:

1. The tier 0 dual-engine sweepers are currently operated approximately 1,300 hours per year. By allowing the use of these sweepers for 250 hours per year sweeping companies would be allowed to use such machines at 19% of their previous use. As such, their initial reinvestment in replacing such machines would decline by this same percentage. Consequently, I reduced the cost of replacement of such machines by 19%.

2. To reflect the reduced costs of reinvestment resulting from the proposed changes to the sales regulations on municipalities, I further reduced the total estimated costs of sweeper replacement by an additional 10%.

The impact of the revised legislation upon the liquidity position of the companies is summarized as follows:

COMPANY	WORKING CAPITAL EXCESS/(DEFICIT) At 12/31/2014	
Company A	$	(86,141)
Company B	$	(594,800)
Company C	$	(182,114)
Company D	$	(43,000)
Company E	$	(365,321)
Company F	$	(98,955)

As shown, the ultimate impact of the revised proposed legislation is unchanged. Although the rate of decline in liquidity is slower, all of the companies analyzed would become insolvent and would be out of business by 2014.

The staff of the California Air Resources Board has indicated that they analyzed a typical sweeper company and noted that the additional capital expenditure requirements were about 3% of gross revenues. In my opinion, the comparison of capital expenditures to gross revenues has limited relevance and is misleading. Whether, and to what extent, a company can afford extraordinary capital expenditures is more clearly reflected by consideration of net earnings as opposed to gross revenues. Below is a listing of the average additional capital expenditures compared to net income for the 2010 thru 2015 time period.

COMPANY	CAPITAL EXP./ NET INCOME
Company A	85%
Company B	283%
Company C	133%
Company D	71%
Company E	121%
Company F	87%
AVERAGE	**130%**

As shown, the average costs incurred would exceed the net income for this time period. With extraordinary additional capital costs exceeding earnings , even over this long term, the typical sweeping company would not be able to remain in business.

It is worth noting that the above analysis considers net income based upon the earnings of the companies during 2007. Based upon my discussions with sweeping operators both revenue and net income have declined recently resulting from current economic conditions. Additionally, it is also important to note that my analysis assumes that the sweeping companies would be able to finance the extraordinary capital expenditure requirements. In light of the recent tightening of credit financing this assumption may, in fact, be invalid.

I appreciate the chance to be of service in this matter. Please feel free to contact me with any questions.

Very truly yours,

Christopher F. Whitaker CPA, ABV, CFF, MBA, MST