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Bill's SWEEPING SERVICE, INC.

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December 8, 2008

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

Members of the Air Resources Board:

As a member of the North American Power Sweeping Association California Chapter I have been working with CARB staff to develop a workable solution that would allow our industry to survive the On Road Truck and Bus Rule. The CARB staff has been courteous and professional. They have listened to our input and made a number of positive changes that were not easy or quick to accomplish. Staff has strived to understand our unique equipment and progressed significantly since we started this process.

There are, however, still quite a few areas where we disagree. Some are differences of degree, some are differences of fact. If the consequences were not so harsh, we could agree to disagree. As in other wheel based industries the question is not is this "painful yet achievable", but rather is this survivable?

Street Sweepers are unique vehicles. Many have dual engines, dual steering and brimming with all sorts of electrical, mechanical and hydraulic apparatus. Even if the space and safety challenges could be overcome, (which they have not yet), most re-powers and retrofits are times two, one for each engine. New sweepers easily cost twice what a similar sized truck would be. While all industries will struggle financially, street sweeping companies will feel twice the pain.

CARB staff estimated in Appendix M that "For most companies, the cash flow would always remain positive except in a few key years." Our industry has looked at this under many different scenarios and hired outside CPA's experienced with overlaying financial data with legislation and have continually found that experienced, previously profitable companies would be unable to survive this rule. (Study attached) Even if a company chooses to take on a million dollars of debt, which is only five sweepers, a finance company looking at CARB's rosy picture of "except in a few key years" would laugh. We also see in the news everyday what irresponsible debt can lead to.

This phased elimination of sweepers is particularly disturbing as street sweepers actually pick up 10 to 1,000 times more PM than they produce, including both PM10 and PM2.5. If air quality is the goal then eliminating even the oldest, most polluting sweeper is counterproductive.

Many state and local air quality rules require various industries to sweep at recommended intervals. Private industry chooses to sweep considerably more often because it is the right thing to do and an effective air pollution and water pollution best management practice. Raising the price of sweeping <u>will</u> reduce the sweeping that takes place <u>and</u> increase air pollution.

The over 40,000 private communities in California that have to pay for their own street sweeping will reduce frequencies or eliminate sweeping all together. This will be a financial decision. Unlike the suggestion in Appendix M that sweepers in residential neighborhoods are hazardous to resident's health, street sweepers greatly improve the air and water quality in the neighborhoods where they work.

While removing street sweepers from the rule would allow the board to be less stringent and achieve the same results, the entire rule should be scrapped. With less polluting engines already entering the system and CARB's own presentations showing pollution to be about the same in 2023 with or without this rule, this "speed up" is much too costly to the one million vehicles affected and the customers they serve. This is like giving a normal child growth hormones when his parents are both 6' 5". Just wait 10 years and avoid the costs and unknown side effects.

It is curious that air pollution in California keeps getting better and better (remember the 1960's), yet every CARB produced study shows health risks continuing to get worse. During the recent fuel price hikes we drove something like a billion less miles per month, so shouldn't the health studies "suggest" a downward curve with all this reduced pollution? Where are the contrary studies funded by CARB that might "lead staff to believe" some risks may be overstated? Is this a case where the judge is limiting the evidence the jury gets to hear, or is the judge only funding exhibits for the prosecution?

I urge the board to avoid the impulse to "do something"; because that something is already on schedule to happen.

Sincerely,

Mark Carter

Mark Carter
NAPSA CA Vice Chairman

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