

# **Request for Changes to Refuse Rates Narrative Summary**



**March 7, 2023**

**Recology Sunset Scavenger  
Recology Golden Gate  
Recology San Francisco**

# TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	1
I. OVERVIEW .....	3
A. The SF Recology Companies.....	3
B. Refuse Collection and Processing.....	3
C. Changes to Rate Regulation .....	5
D. Proposed Rate Adjustments.....	5
E. Website .....	6
II. PROGRAMS INCLUDED IN THE PROPOSED RATE .....	7
III. RATE-SETTING METHODOLOGY .....	12
A. Rate-Setting Calculation.....	12
B. Total Operating Costs .....	13
C. Projected Revenues at Current Rates.....	14
D. Revenue Offsets .....	14
E. Recycling Revenues.....	15
F. Balancing Account.....	15
IV. RATE STRUCTURES.....	17
A. Residential Rate Structure.....	17
B. Apartment Rate Structure.....	18
C. Commercial Rate Structure.....	18
D. Disabled Service .....	19
E. Low Income Discounts .....	19
F. Debris Box Service .....	19
G. Other Services .....	19
H. Discount for E-Bill Customers .....	19
I. COLA.....	20
V. ZERO WASTE INCENTIVES.....	21
VI. IMPOUND ACCOUNT .....	23
VII. REPORTING .....	24

# EXECUTIVE SUMMARY

This refuse rate change application proposes rate increases that will allow the SF Recology Companies to maintain and improve services that help keep San Francisco clean and achieve the City's climate action goals. This rate application also includes the labor and equipment investments needed to sustain San Francisco's world-class waste diversion programs.

We have targeted our programs to meet the needs of our customers, San Francisco Public Works, and San Francisco Environment Department (SFE). And, as part of our ongoing commitment to increased transparency in rate-setting and rate-reporting, we are eager to work with the City Controller's Office to enhance our public disclosures.

There have been a number of key developments since the last rate-setting process more than six years ago. Since then, economic pressures have challenged the SF Recology Companies' revenue outlook and cost structure. Those pressures were exacerbated by the COVID-19 pandemic and persist today. The most significant changes in revenues and costs include:

- **Reduction in commercial collection revenues.** San Francisco has seen the slowest commercial recovery of any major U.S. city. Office vacancy rates remain stubbornly high. Recology Sunset Scavenger (RSS) and Recology Golden Gate (RGG) (together, the Collection Companies) saw a 20% drop in commercial revenues during the early years of the pandemic. Their revenues remain down by more than 10% as of the end of Rate Year (RY) 2022.
- **Markedly lower tonnage** at Recology San Francisco's (RSF) facilities. Reduced economic activity in San Francisco – fewer construction projects, fewer visitors, fewer workers in downtown offices, to name but a handful of pandemic-related changes – has reduced the volume of material received at RSF by about 30% compared to pre-pandemic levels. RSF's revenues have declined sharply as a result.
- **Labor cost increases.** Meanwhile, labor costs have continued to increase with market conditions. In addition to inflationary pressures, pandemic-related changes in the labor market and compliance with new employee leave regulations have driven labor costs upward.

At the same time, the SF Recology Companies are committed to partnering with the City to achieve its climate action goals. This application identifies additional investments designed to reduce waste and increase diversion from landfills, including:

---

## EXECUTIVE SUMMARY

- **Increased outreach.** The SF Recology Companies will increase their engagement with customers, especially regarding organic materials. Additional education, audits, and increased enforcement of contamination fees will all encourage San Francisco customers to separate their organic materials. Outreach has proven to be a cost-effective and high-impact way to help the City achieve its climate goals.
- **Contamination removal.** The SF Recology Companies propose investment in new machinery at the Tunnel Avenue Transfer Station to reduce contamination before material is transported to Recology's organics processing facility. Doing so will improve the quality of compost produced at the processing facility and help control transportation costs by removing contamination before material is shipped.

Investments in these and other areas will continue to improve San Francisco's nationally recognized organics program, keep the City clean, and achieve its ambitious climate action goals.

Given higher costs of doing business and our expanded environmental efforts, future rate adjustments are needed. The SF Recology Companies propose an average net increase in collection rates of 3.90% in RY 2024 and 2.17% in RY 2025. Individual rate increases will vary by level and type of service.

Meanwhile, the SF Recology Companies have begun and will continue enhanced reporting measures to increase public visibility into revenues, expenses, and profits. Major initiatives in this area include:

- **Aligning the rate year** and Recology's fiscal year to facilitate comparisons between rate reports and audited financial statements;
- Annual combined **audited financial statements** for the SF Recology Companies, which will be posted on the Refuse Rate Administrator's website;
- A **reconciliation** between rate reports and audited financial statements, promoting increased traceability;
- Establishment of and reporting on a **balancing account** that will be used to stabilize rates over time; and
- Reporting on **intercompany property rents for properties** used to serve San Francisco ratepayers.

Recology looks forward to continuing its longstanding service to the people and businesses of San Francisco to achieve our shared goals. We remain committed to supporting the City's nationally renowned climate action goals and to meeting the City's critical needs through a strong and dedicated partnership.

# I. OVERVIEW

## A. The SF Recology Companies

Recology envisions a world without waste. We trace our roots to the 1920s, when immigrants to San Francisco performed work few others wanted to do. They collected the City's waste and sorted through it to salvage and resell what they could, pioneering recycling long before the industry had a name.

As the City's priorities have changed, the SF Recology Companies – RSS, RGG, and RSF – have adapted their business to meet those needs. They partnered with the City to implement a first-of-its-kind organics program, build a world class recycling facility, and achieve the highest diversion rate of any major U.S. city. Today, the SF Recology Companies provide comprehensive recycling, organics, and solid waste collection, processing, and disposal services to 138,000 residential and 24,000 commercial and multi-family customers in San Francisco. Annually, the Collection Companies collect over 640,000 tons of material in the City.

Recology is one of the only – and by far the largest – 100-percent employee-owned companies in its industry. Recology is committed to paying fair wages to its hardworking employee-owners while charging competitive rates to its customers – all while keeping the City's streets clean and achieving our shared climate action goals.

The SF Recology Companies have demonstrated an unmatched ability to provide consistently high-quality service to San Francisco. Since the pandemic stay-at-home orders in March 2020, we have continued to serve San Francisco residents and businesses without interruption, even as many other companies shut down locally and nationwide. We are proud of our legacy and look forward to continuing to provide San Francisco with world-class service and sustainability programs.

## B. Refuse Collection and Processing

### Collection

The Collection Companies provide refuse collection services to residential and commercial customers in San Francisco. The Collection Companies hold the route permits and collection licenses issued under the Refuse Collection and Disposal Ordinance to collect and transport refuse within San Francisco City and County limits.

### Transfer and Recyclables/C&D Processing

RSF provides disposal and processing for the materials collected by the Collection Companies. RSF owns and operates a transfer station at Recology's Tunnel Avenue facility to receive organics and trash from the Collection Companies and others. It then transports these materials to composting or disposal facilities. The Transfer

---

## OVERVIEW

Station also serves the public directly as a drop-off location for, among other things, household hazardous waste, construction and demolition debris (C&D), and general refuse. A co-located C&D processing facility (the iMRF) processes C&D to recover reusable material. In addition, RSF operates the Pier 96 Materials Recovery Facility (MRF), known as Recycle Central, on property leased from the Port of San Francisco. RSF has partnered with the City on a program to increase the number of local residents employed at the company, and today 58% of the employee-owners at Recycle Central live in the adjacent neighborhoods. Most recyclable materials collected in the City are sorted and processed at Recycle Central and from there shipped to end markets.

### Organics Processing

Materials collected in the organics container (green bin) are processed at Recology's Blossom Valley Organics – North facility (BVON) in Vernalis, California. In recent years, high levels of contamination – non-organic material, particularly plastics, mixed with organics – in the organics stream have hampered processing. This application includes new investment in machinery at the Transfer Station to remove contamination from the inbound organics stream, which will improve the quality of the compost and reduce greenhouse gas emissions associated with trucking contaminants to the landfill.

California's Short-Lived Climate Pollutant Reduction Strategy (SB 1383) seeks to mitigate methane emissions by reducing the amount of organics sent to landfill by 75% from 2014 levels by 2025. This application proposes enhanced customer education on proper sorting techniques and increased audits to assist customers in monitoring their performance. In addition, the application includes contamination fees and penalties for improper placement of materials so that the cost of contamination is borne by those generating the contamination rather than by all ratepayers. The Collection Companies and SFE have agreed to modify the contamination fee procedure to make it more effective. The audits and contamination fees are designed to encourage ratepayers to reduce organics contamination. Doing so will help the City comply with SB 1383 and ensure that its longstanding universal compost program remains at the forefront of efforts to increase diversion.

\* \* \*

The SF Recology Companies provide competitively priced services to San Francisco because they benefit from the synergies of an integrated system. The SF Recology Companies seek specific rate adjustments for (1) the tipping fee collected by RSF at the Tunnel Avenue and Recycle Central facilities, and (2) the rates charged by the Collection Companies to residential, apartment, and commercial ratepayers. This narrative summary provides a thematic overview of the rate application. More detailed information on the specific assumptions used to develop this submission is included in the Summary of Assumptions.

---

## OVERVIEW

### C. Changes to Rate Regulation

The Refuse Collection and Disposal Ordinance regulates rates charged in San Francisco. In June 2022, San Francisco voters adopted Proposition F, which made several changes to the Ordinance, including to the procedure for proposing new rates. The City Controller serves as Refuse Rate Administrator, a new position established by Proposition F, and is responsible for proposing new rates to the Refuse Rate Board. The Refuse Rate Board may authorize adjustments to rates following a public hearing.

### D. Proposed Rate Adjustments

The SF Recology Companies seek just and reasonable rates that will account for increased costs and will fund activities designed to support San Francisco's climate action goals. As the stewards of the programs and services covered by this submission, the Companies aim for the highest environmental impact at the lowest cost.

The program changes, enhancements, and costs detailed in this application are principally driven by inflationary increases and the ongoing impacts of the COVID-19 pandemic. For instance, pandemic-related changes in the labor market and compliance with new employee leave regulations have pushed up labor costs. Changes in worldwide recycling markets, including international shipping costs, have increased processing and other expenses.

This application includes information necessary to set rates for RY 2024 and RY 2025. As in past rate proceedings, the SF Recology Companies propose maintaining the existing Cost of Living Adjustment (COLA) mechanism, a tool used to adjust rates between rate application periods. Here, because the application proposes rates for both RY 2024 and RY 2025, a COLA would be applied to set rates for RY 2026 and until a new rate order is adopted. These annual adjustments keep the rates aligned with costs and help smooth rates over time. A COLA applied annually, as is proposed for RY 2026 and later years, reduces the likelihood of large rate increases when new rates are set. It also provides a timely benefit to ratepayers when costs decrease.

A detailed description of the calculation of rate adjustments and resulting rates is included in the separate Summary of Assumptions.

For RSF, the application seeks a 16.36% increase in the tipping fee for RY 2024, from \$219.86 to \$255.82 per ton and a 0.08% increase for RY 2025, from \$255.82 to \$256.03. This change is driven by lower tonnage due to the post-pandemic reduction in business activity and by lower recycling commodity prices. The rates requested for the Collection Companies incorporate and are primarily driven by this tipping fee increase. The tipping fee increase is net of certain revenue offsets available in RY 2024 and RY 2025.

---

## OVERVIEW

For the Collection Companies, the rate application proposes an average net increase in collection rates of 3.90% for RY 2024 and 2.17% for RY 2025. These increases would apply to all collection customers covered under this rate-setting process. The changes are net of certain revenue offsets available in RY 2024 and RY 2025.

The information submitted by the SF Recology Companies follows the guidance contained in the Refuse Rates Change Request Instructions and in the forms published by the San Francisco Controller's Office on February 1, 2023 as Controller's Refuse Rate Order 2023-01. Additional supporting materials and responses to questions and inquiries will be provided during the review process.

### E. Website

To promote transparency in the rate application review process, Recology maintains a website with information on the current rates that is easily available to San Francisco ratepayers at <https://www.recology.com/recology-san-francisco/rates/>. The website contains information about programs and services offered. It also includes a tool that allows residential and apartment customers to calculate their rates. Through the website, customers can also contact us to schedule service, find updates on events and service impacts, and review educational resources.



## II. PROGRAMS INCLUDED IN THE PROPOSED RATE

The SF Recology Companies maintain an integrated suite of critical programs and services that help keep San Francisco clean and achieve the City's climate action goals. These programs and services have been developed through dialogue with the City and community to understand the initiatives that best serve their needs.

The core of the collection system in San Francisco is the three-stream collection of recyclables (blue bin), organics (green bin), and trash (grey bin) from residential and commercial customers. These services are offered on a subscription basis to three categories of customers: residential, apartment, and commercial. Residential service is generally weekly; apartment and commercial service is weekly or more frequently as subscribed by the customer. In addition, a suite of services complements this collection system to respond to the City's and ratepayers' needs.

In this rate application, program enhancements include:

- **Increased abandoned materials collection.** The SF Recology Companies propose additional service in areas with debris in the public right of way. The proposal includes additional vehicles and personnel needed to meet the service demand and continue to maintain the responsiveness required for this program. Reports of abandoned materials are made through the City's 311 system and material is usually picked up within four hours of a call.
- **Increased "city can" service.** The SF Recology Companies propose extra weekday and weekend service to public trash receptacles (also known as "city cans") by increasing the frequency of service. The increase expands the Companies' ability to implement service adjustments that match the dynamic needs of each neighborhood.

The full list of programs and operations is:

1. **RECYCLABLES COLLECTION (Blue bin):** Collection of comingled recyclables, including paper, bottles, cans, and hard plastics (e.g., cups, tubs, lids, buckets), from residential, apartment, and commercial customers.
2. **ORGANICS COLLECTION (Green bin):** Collection of food scraps, plant materials, and soiled paper from residential, apartment, and commercial customers.
3. **TRASH COLLECTION (Grey bin):** Collection of non-recyclable and non-organic materials from residential, apartment, and commercial customers.

---

## PROGRAMS INCLUDED IN THE PROPOSED RATE

4. **BULKY ITEM RECYCLING (RecycleMyJunk.com):** Curbside collection and recycling of bulky items is offered to residential and apartment customers through scheduled on-call pick-ups. Acceptable items include appliances, electronics, furniture, scrap metal, and wood.
5. **PUBLIC REFUSE RECEPTACLE COLLECTION:** Sometimes referred to as the “city can” program, the Collection Companies collect from over 3,000 City-owned public trash receptacles around the City. Each can is emptied between one and three times per day. Cans emptied more than once per day are emptied outside of regular route service and on demand within two hours of notification by the City. The Companies are expanding weekday and weekend service in response to the dynamic needs of each neighborhood. The SF Recology Companies replace liners in City-owned public trash receptacles, as needed.
6. **ABANDONED MATERIALS COLLECTION:** The SF Recology Companies collect non-hazardous abandoned materials identified through the City’s 311 reporting system or by Recology personnel. The Companies typically respond to abandoned materials requests within four hours.
7. **DISPOSAL OF STREET SWEEPING AND ABANDONED WASTE:** Public Works may self-haul certain nonhazardous materials it collects to the Transfer Station and dump them at no charge. These materials consist of street sweeping and abandoned waste delivered to the Transfer Station in Public Works’ street sweeping vehicles and designated Public Works pick-up, bucket, and packer trucks used for abandoned waste collection.
8. **DISTRICT CLEAN-UP EVENTS:** Special clean-up events will be held at least annually in each of the City’s eleven Supervisorial Districts to allow residents to drop off items too big to fit in the regular collection bins. Motor oil, batteries, and fluorescent lamps will also be accepted.
9. **BATTERY RECYCLING:** Residential and apartment customers place household batteries in orange bins or in bags on top of their black bins. Collectors put the batteries in a special container in the collection truck. Workers at the Tunnel Avenue facility then sort the batteries according to Department of Transportation rules and ship them to battery recycling facilities. The SF Recology Companies are working with SFE to consider updates to this program.
10. **CHRISTMAS TREE RECYCLING:** Christmas trees are collected at the curb during the first two weeks of January, chipped, and composted.
11. **CONSTRUCTION AND DEMOLITION (C&D) DEBRIS RECYCLING:** The Recology iMRF, located at the Transfer Station, receives and processes C&D to recover metal, wood, sheetrock, rigid plastic, and other materials. This

---

## PROGRAMS INCLUDED IN THE PROPOSED RATE

operation is registered under the City's Construction and Demolition Debris Recovery Ordinance.

12. PUBLIC REUSE AND RECYCLING AREA (PRRA): The Tunnel Avenue facility receives self-haul trash, organics, recyclables, and reusable items from San Francisco residents and businesses. Material hauled by the public is weighed and processed on a Ptarmigan Sorting line, as needed.
13. HOUSEHOLD HAZARDOUS WASTE DROP-OFF: RSF operates the San Francisco Household Hazardous Waste Collection Facility (HHWCF), where residential customers can drop off household hazardous wastes (e.g., paint, oil, pesticides, household chemicals) three days per week for safe recycling and disposal. This facility has been open since 1987 and was among the first permanent HHWCFs in the nation.
14. DOOR-TO-DOOR HOUSEHOLD HAZARDOUS WASTE COLLECTION: The Collection Companies collect household hazardous wastes directly from homes using specialized trucks for handling and transporting these materials.
15. HOUSEHOLD HAZARDOUS WASTE RETAIL TAKE-BACK PROGRAM: The Collection Companies use the same specialized trucks to collect paint, fluorescent lights, and household batteries at San Francisco retailers who partner with SFE and volunteer to "take-back" small quantities of these common hazardous wastes from San Francisco residents. Retail "take-back" hazardous wastes are transported to the HHWCF and consolidated and repackaged there for safe recycling and disposal.
16. VERY SMALL QUANTITY GENERATOR PROGRAM: Qualifying small business generators of hazardous waste located in San Francisco may use the HHWCF by appointment for a fee on designated days each month.
17. E-WASTE RECYCLING: Most electronic waste is banned from landfill in California. Computers, monitors, televisions, computer peripherals, and other electronic devices are collected from bulky item recycling appointments and at Tunnel Avenue. The material is then shipped to facilities specializing in recycling specific types of e-waste.
18. SAFE NEEDLE PROGRAM: The San Francisco Safe Needle Disposal Program (SFSNDP) provides San Francisco residents with safe, convenient disposal of home-generated sharps at participating pharmacies throughout the City. Residents can pick up empty sharps containers at participating pharmacies, fill them, and return them for disposal as medical waste. The Collection Companies pick up these filled sharps containers.
19. PERFECTLY-GOOD REUSE PROGRAM: The SF Recology Companies pull items that are in good condition for reuse (e.g., bicycles, furniture, clothing) from loads brought to the PRRA by individuals and small businesses. The

---

## PROGRAMS INCLUDED IN THE PROPOSED RATE

reusable items are either donated directly or given to organizations such as St. Vincent de Paul that process them for distribution in thrift stores.

20. **MATTRESS RECYCLING:** Mattresses from residents, hotels, PRRA drop-offs, and designated collection trucks are loaded onto trailers at the Tunnel Avenue facility and transported to a local company specializing in mattress recycling.
21. **TOILET RECYCLING:** Old toilets are segregated from the waste stream and transferred to a company that specializes in porcelain recycling. Prior to shipment, toilet seats and lids are removed and baled with other rigid plastics for recycling.
22. **TIRE RECYCLING:** Used tires are handled separately at the Tunnel Avenue facility and then taken to a company that shreds and recycles the rubber.
23. **STYROFOAM DROP-OFF:** Residents and businesses can drop off clean expanded polystyrene (EPS) at the PRRA for recycling. RSF operates a special densifier that compacts loose pieces of EPS into cubes, which are recycled into products such as baseboards and moldings.
24. **FILM PLASTIC DROP-OFF:** Residents and businesses drop off clean polyethylene film plastic (e.g., plastic bags) at Recycle Central and the PRRA for recycling. The film plastic is baled and shipped to plastic recycling markets.
25. **LITTER COLLECTION FROM COMMUNITY BENEFIT DISTRICTS (CBDs):** Certain CBDs collect litter, sweep sidewalks and gutters, and “top off” public refuse receptacles in their areas. The Collection Companies collect eligible material from these activities at no additional charge to the CBDs. The City and the SF Recology Companies have agreed on terms for this program to ensure the service is used only for the intended purpose and that CBDs are treated consistently. CBDs will only be charged if commercial/residential refuse or other ineligible material is found in the CBD’s material.
26. **EVENT RECYCLING:** The Collection Companies provide recycling, organics, and trash collection services to neighborhood festivals and major functions such as the Chinese New Year Parade and the Pride Parade.
27. **ARTIST IN RESIDENCE:** Recology’s Artist in Residence program is a unique art and education program that provides Bay Area artists with a four-month residency during which they create unique works of art from material scavenged from Recology’s public disposal area. Artists also receive a stipend and a large studio space at Recology’s facilities. By supporting artists who work with reused materials, Recology hopes to encourage people to conserve natural resources and promote new ways of thinking about art and the environment. Since 1990, over 200 artists and 50 students have completed residencies.

---

## PROGRAMS INCLUDED IN THE PROPOSED RATE

28. EDUCATIONAL TOUR PROGRAM: Recology provides educational tours to children and adults and is aiming to return these tours to pre-pandemic levels. The focus of the tour is recycling, composting, reuse, and resource conservation. The tour includes visits to Recycle Central and the Tunnel Avenue facility.

29. COMPOST GIVEAWAY: Periodically, the SF Recology Companies provide free compost to San Francisco residents at various locations. In addition, free compost is provided at District clean-up events. The compost is derived from food and garden materials generated in San Francisco and composted at one of Recology's composting facilities.

The SF Recology Companies and the City have worked as partners for many years to educate the public on the importance of increasing diversion from landfills and achieving our shared climate goals. The Companies will continue to provide general and targeted outreach as part of an ongoing effort to raise awareness of these programs and help meet the City's Zero Waste goals by 2030.

Recology's Waste Zero Specialists act as liaisons to the community, helping to educate on diversion services and programs. The SF Recology Companies propose to add Waste Zero staff to distribute and publicize new information with introductory letters, follow-up postcards, cart-hanger notices, website information, and other resources. Waste Zero staff will continue to focus on waste audits and teach customers proper use of the system. The SF Recology Companies will continue through the rate period and beyond to work with SFE to reach City residents and businesses to explain programs and encourage greater participation.

Except as otherwise stated in this application, the proposed rates assume no significant increase above current levels in utilization of services provided at no additional charge. Any such increase would impact the balancing account and could increase the likelihood of a future rate adjustment request.

# III. RATE-SETTING METHODOLOGY

## A. Rate-Setting Calculation

### Collection Companies

Collection rates are based on rate-eligible expenses plus an allowed profit on the profit-eligible portion of those expenses. For some rate-eligible expenses – intercompany disposal and processing costs, licenses, permits, the Impound Account, and Zero Waste Incentive (ZWI) funding – the Companies earn no profit and simply pass through those costs. The allowed profit on all other costs is calculated using an operating ratio, which is a standard waste industry mechanism used to determine appropriate profit. As in past rate applications, an operating ratio of 91% is used in this application. This operating ratio generates a low profit by industry standards.

Rate-eligible expenses on which profit may be earned are divided by the 91% operating ratio to produce a revenue requirement necessary to cover those expenses and generate a profit. Rate-eligible expenses on which profit is excluded are added to that calculated revenue requirement to produce a total revenue requirement. The total revenue requirement is then measured against projected revenue at current rates to calculate a required rate adjustment percentage. That percentage is then adjusted by revenue offsets and the final percentage change is applied to all components of the rate structure to obtain future rates for each element of the rate structure. Because rates are then rounded to two decimal places, percentage changes from RY 2023 to RY 2024 rates and from RY 2024 to RY 2025 rates may appear to vary insignificantly from the required rate adjustment percentage.

In contrast to past rate applications, non-rate activity, including open market debris box and contract customer service, is now separated from rate activity before the required rate adjustment percentage is calculated. Non-rate-related revenues for open market debris box and contract customer service (with an estimate of associated expenses for these services) are removed before performing the calculations described above.

The application assumes that the City Services contract will end June 30, 2024. Revenues and expenses from the City Services contract are treated the same as for other contract customer service – that is, they are separated from rate activity – for the first nine months of RY 2024. After that time, the application no longer separates from rate activity the portion of fixed costs previously allocated to the City Services contract. The application assumes that, after June 30, 2024, the material collected under any new City Services contract would continue to be delivered to RSF's facilities. If that does not occur, RSF's revenues would decline, leaving a smaller revenue base to cover its fixed expenses.

---

## RATE-SETTING METHODOLOGY

### RSF

As with collection rates, tipping fees are based on rate-eligible expenses plus an allowed profit on the profit-eligible expense categories. The rate-eligible expenses on which profit may be earned are divided by a 91% operating ratio. The rate-eligible expenses on which profit may not be earned are added to that result to produce a total revenue requirement. The total revenue requirement, adjusted for revenue offsets, is then divided by the projected tonnage to be received by RSF to determine the required per ton tipping fee. This new tipping fee is then measured against the existing tipping fee to calculate the tipping fee adjustment percentage.

\* \* \*

As in past rate applications, an additional 2% operating ratio (i.e., for a total 89% operating ratio) is included in the rates to be set aside in a ZWI account. These funds incentivize Recology to achieve certain diversion targets, described below. If Recology does not meet these diversion targets, the funds are used to offset future rate increases or may be used to further the City's environmental goals.

### **B. Total Operating Costs**

The following categories comprise a large majority of the total combined operating costs (see Schedule G.1) of the SF Recology Companies:

- **Labor and Benefits.** Labor and benefits amount to nearly 59.6% of combined operating costs for RY 2024, the largest single category. For RY 2024, labor and benefits costs are projected to increase 2.9% over RY 2023 costs. For RY 2025, labor and benefits costs are projected to increase 0.3% over RY 2024 costs. These increases are due to the collective bargaining agreement recently negotiated with Teamsters Local 350 and to additional costs associated with the impact of COVID-19, including compliance with the emergency leave requirements of Proposition G. A decrease in pension contributions in RY 2025 offsets nearly all increases in this category.
- **Disposal and Processing.** Disposal and processing costs (exclusive of labor and benefits costs) account for about 8.6% of combined operating costs for RY 2024. Disposal costs include landfill disposal for materials that are not recycled or otherwise processed. Processing costs primarily represent the cost of processing organic material. Disposal and processing costs are projected to decrease 4.2% in RY 2024, primarily due to extra hauling costs associated with vacating Pier 94 in RY 2023 that will not be incurred in RY 2024. This decrease more than offsets increased costs at the organics facility associated with improved environmental controls and the costs of managing plastic and glass contamination in the organics stream.
- **Truck Operations and Other Assets.** Truck operating costs represent approximately 9.4% of combined operating costs for RY 2024. Truck

---

## RATE-SETTING METHODOLOGY

operating costs include fuel, oil, repair and maintenance, licenses, and City permits. Truck operating costs are projected to increase 2.4% in RY 2024 and 2.3% in RY 2025.

- **Capital.** Capital cost recovery accounts for approximately 8.4% of combined operating costs for RY 2024. Capital cost recovery includes lease costs and depreciation. Lease costs are costs to lease equipment to the Companies for use in providing service to ratepayers and transporting and processing materials collected in San Francisco. Lease costs have increased since 2022 due to vehicle replacements required by California Air Resources Board rules on vehicle emissions. Depreciation is recognized for building projects and leasehold improvements. Capital costs are projected to increase 15.4% in RY 2024 and 6.3% in RY 2025, largely due to required vehicle replacements.
- **Facilities and Operations Maintenance.** Facilities operating and maintenance costs represent about 3.8% of combined operating costs. Facility costs include operating costs of Recycle Central and the Tunnel Avenue facility, including the iMRF, Public Reuse and Recycling Area, Household Hazardous Waste Collection Facility, scale facilities, administrative offices, and maintenance and related operational facilities. Facilities operating and maintenance costs are projected to decrease 4.6% in RY 2024 and increase 1.9% in RY 2025. The decrease is largely due to savings from vacating Pier 94.
- **Other.** The remaining 10.2% of combined operating costs includes, supplies, corporate services, general and vehicle insurance, professional services and bad debt, among other costs. Additional detail is available in the Summary of Assumptions. These costs are projected to increase 8.2% in RY 2024 and 5.2% in RY 2025. These increases are largely due to corporate IT, engineering, accounting, and other professional services increases.

### C. Projected Revenues at Current Rates

At projected service levels, the Collection Companies are projected to generate \$352 million in collection revenue from ratepayers in RY 2024 (at RY 2023 rates). The Collection Companies are projected to generate \$373 million from ratepayers in RY 2025 (at RY 2024 rates). This revenue at current rates is used to determine the necessary rate change to meet projected cost and profit requirements.

### D. Revenue Offsets

The proposed rate increase includes two offsets to the revenue requirements:

- **ZWI.** This application proposes to use all ZWI funds, described in more detail below, from RY 2023 to offset the RY 2024 rate increases. For RY 2024, this offset is projected to equal \$3.2 million for the RSF tipping fee and \$5.3 million



---

## RATE-SETTING METHODOLOGY

for the Collection Companies. This application assumes that the RY 2024 ZWI goals will not be achieved. For RY 2025, Tiers 1 and 2 only of the RY 2024 ZWI funding would be used to offset RY 2025 rate increases, projected to equal \$1.5 million for the RSF tipping fee and \$2.6 million for the Collection Companies.

- **Rate Stabilization Fund.** Under the terms of a March 2021 settlement agreement with the City, any undistributed payments to ratepayers were placed in a fund to offset future rate increases. The approximately \$4.25 million in this fund would partially offset the RY 2024 revenue requirements for the Collection Companies.

### E. Recycling Revenues

The recycling commodity price assumptions for materials processed at Recycle Central are based on actual prices for the first three months of RY 2023 and on the average price received over the last three years. Recycling revenue has been volatile over the last several years, as changing markets, changing consumer demand and changes in international freight prices have all affected prices of recycled materials. Recycling revenue projections for RY 2024 and RY 2025 are calculated based on the projected tons of each commodity multiplied by the projected price per ton. Recycling revenues offset a portion of operating costs.

### F. Balancing Account

To promote long-term stabilization of rates, the SF Recology Companies propose the ongoing use of a notional balancing account.

#### Prior Period Earnings

Under the December 2022 settlement agreement with the City, any notional balance remaining as of the end of RY 2023 will be applied to offset rates beginning in RY 2025. Once that remaining notional balance is determined during RY 2024, 20% of the balance will be applied to reduce RY 2025 rates. This application makes no assumptions regarding this amount.

#### Earnings in RY 2024 and Subsequent Rate Years

The SF Recology Companies propose the ongoing use of a notional balancing account with some modifications. Beginning with periods regulated under the new Rate Order, the SF Recology Companies propose that the notional balance of the balancing account be adjusted for 100% of the difference between actual net profits or losses reported in each quarterly rate report during RY 2024 and after and the target profit that results from applying a 91% operating ratio to actual operating ratio-eligible expenses. The following equation illustrates this calculation:

---

## RATE-SETTING METHODOLOGY

$$\text{above/below target profit} = \text{actual net profits} - \left[ \frac{\text{expenses}}{0.91} - \text{expenses} \right]$$

Each quarterly rate report will include a schedule showing all new activity in the balancing account. With the submission of Recology's audited financial statements to the Refuse Rate Administrator, Recology will submit at the same time a schedule of the activity in the notional balancing account since the previous rate year-end.

After each rate year-end, the notional balance will be available to assist in long-term rate stabilization. If the notional balance due to profits earned in a rate year is positive, 100% of that balance will be used to offset rates charged in the second subsequent rate year. If the notional balance due to profits earned or losses incurred in a rate year is negative, 100% of that negative notional balance will be used to increase rates charged in the second subsequent rate year. For example, if the notional balance due to RY 2024 profits earned is \$1 million, RY 2026 rates will be offset by an amount necessary to reduce Recology's revenue derived from rates by \$1 million.

These rate adjustments will be applied at the same time as regularly scheduled rate increases or COLAs.

# IV. RATE STRUCTURES

## A. Residential Rate Structure

The Collection Companies’ rate structure continues the current practice of base and volumetric charges. For residential customers, i.e., those occupying single-family dwellings and 2-5 unit multifamily dwellings with shared service, the Companies propose to increase the base “unit charge” from \$17.55 to \$18.23 in RY 2024 and \$18.63 in RY 2025.

This application also proposes to increase the volumetric service charge from \$7.33 to \$7.62 in RY 2024 and \$7.79 in RY 2025 per 32 gallons of capacity for the recycling and organics streams. The application proposes an increase from \$7.33 to \$7.62 in RY 2024 and \$7.79 in RY 2025 for the default trash size of 16 gallons. (There is a penalty for trash above 32 gallons.) Charges for collection more frequent than once per week and for different sized containers would also increase accordingly.

The rate increase for individual residential customers will vary depending on their service levels. The table below shows a comparison of sample current and proposed rates for RY 2024 and RY 2025:

Component	Default Service Levels and RY 2023 Rates		Default Service Levels with New RY 2024 Rates		Default Service Levels with New RY 2025 Rates	
	Volume (gallons)	Charge	Volume (gallons)	Charge	Volume (gallons)	Charge
<b>Unit charge</b>	N/A	\$17.55	N/A	\$18.23	N/A	\$18.63
Trash (grey)	16	\$7.33	16	\$7.62	16	\$7.79
Recycling (blue)	64	\$14.66	64	\$15.24	64	\$15.58
Organics (green)	32	\$7.33	32	\$7.62	32	\$7.79
<b>Monthly charge</b>	--	\$46.87	--	\$48.71	--	\$49.79

These rates, even after the projected RY 2024 and RY 2025 increases, compare favorably to those in other major Bay Area cities. Oakland’s current comparable residential service rate is \$54.69 per month; San Jose’s is \$55.24 per month.

---

## RATE STRUCTURES

### B. Apartment Rate Structure

Apartment rates apply to multi-family dwellings with six or more units (but not more than 600 rooms) that have shared service and are not serviced with a compactor or any container larger than two cubic yards. The current apartment rate structure is designed to encourage diversion by charging all three container types (recyclables, organics, and trash) at the same rate and providing a diversion discount as described below. There are no changes proposed to the diversion discount structure.

The proposed adjusted rates include volumetric charges from \$28.12 to \$29.22 for RY 2024 and to \$29.85 for RY 2025 per 32 gallons of once-a-week weekday service, regardless of the type of service (i.e., trash, recycling, or organics). The proposed increase to the base “unit charge” is from \$5.83 to \$6.06 in RY 2024 and \$6.19 in RY 2025.

The diversion discount is calculated by taking the customer’s subscribed-for weekly container volume of recyclables and organics containers, dividing it by the subscribed-for weekly container volume of recyclables, organics, and trash containers, and subtracting 25%. To illustrate, if an apartment customer has three one-cubic-yard bins – one each for recyclables, organics, and trash – each collected on a weekly basis, the customer’s diversion discount would be 42% (67% minus 25%). If the customer replaced the one-cubic-yard recyclables bin with a two-cubic-yard recyclables bin, also collected weekly, the diversion discount would increase to 50% (75% minus 25%). The diversion discount is calculated based on recurring (i.e., at least weekly) recyclables, organics, and trash service only, and the discount is only applied to the volumetric charges.

### C. Commercial Rate Structure

Commercial rates apply to all premises that are not residential or apartment premises, including all non-residential premises, all premises serviced with a compactor or any container larger than two cubic yards, and any premises with more than 600 rooms.

The current commercial rate structure, like the apartment rate structure, is designed to promote diversion by charging all three container types at the same rate, and then providing a diversion discount. The diversion discount is calculated the same way as for apartment customers. Unlike apartment customers, there is no “unit charge” for commercial customers. No changes are proposed to that structure.

The proposed adjusted rates include volumetric charges from \$52.60 to \$54.65 for RY 2024 and to \$55.83 for RY 2025 per 32 gallons of once-a-week weekday service, regardless of the type of service (i.e., trash, recycling, or organics).

---

## RATE STRUCTURES

### D. Disabled Service

This rate application continues the disabled service program for residential customers. The program provides a waiver of access, distance, and elevation charges for disabled and elderly infirm persons if no able-bodied person resides at the residence.

### E. Low Income Discounts

This rate application continues the low-income discount program. The program will charge low-income customers 75% of the regular service rates based on their service configuration. Eligibility documentation for customers and verification procedures for the Collection Companies will remain the same.

### F. Debris Box Service

The Collection Companies provide both regulated and open-market debris box services. Rates for customers who subscribe to debris box service instead of container service because of their service configuration or other special service needs are regulated. All other debris box services are priced at competitive open-market rates. Revenues and expenses associated with open-market debris box services are not included in the rate calculation.

### G. Other Services

The Collection Companies offer compactor and related equipment sales and maintenance in the San Francisco region. Customers who wish to acquire compactors or related equipment may purchase or lease them. The Collection Companies also provide maintenance services for compactors and related equipment. These revenues and an estimate of associated expenses are not included in the rate calculation. The Companies also generate revenue for CalRecycle incentive payments, start up and returned check fees, and other miscellaneous revenue.

### H. Discount for E-Bill Customers

To reduce paper use, e-bill customers will continue to receive a \$1.00 credit for each bill presented and paid electronically. Costs associated with providing this discount to existing customers are included in the rate application as a reduction to existing revenue. Costs for discounts provided to additional customers who sign up for paperless billing will be borne by the SF Recology Companies, as the cost will be partially offset by savings in printing and postage.

---

## RATE STRUCTURES

### I. COLA

This rate application proposes the rates that would apply for RY 2024 and RY 2025. For subsequent rate years—until a new rate is set—the SF Recology Companies propose to use a COLA formula to smooth rate changes over time.

Beginning in RY 2026 and continuing until new rates are set, an annual COLA would be applied to the rates at the beginning of the rate year to help keep rates aligned with the Companies' cost structures. The SF Recology Companies propose to use the COLA methodology that has been used to adjust rates between rate applications but with annual adjustments to the relative weights of the COLA cost components. The cost components would be adjusted annually based on the actual costs reported for the 12 months ending June 30. For example, cumulative actual costs for the period July 1, 2024 – June 30, 2025 would be used to determine the relative weighting of the cost components in the COLA calculation to be applied for RY 2026.

The proposed COLA ensures that both the SF Recology Companies and ratepayers receive a fair benefit from cost structure changes after RY 2025 and until a new rate is established through ratemaking proceedings. Inflationary pressures (for instance, labor) as well as deflationary trends (for instance, a fuel price decline or a reduction in the pension contribution) would be captured in the COLA. By allowing rates to adjust gradually between rate proceedings using an objective methodology, the COLA mechanism helps reduce the likelihood of sharp rate increases and eliminates the need for a new rate application absent significant changes, thereby saving the City and ratepayers the time and expense of the ratemaking process.

## V. ZERO WASTE INCENTIVES

Under the 2017 Rate Order, a portion of the SF Recology Companies' revenues is deposited in a Zero Waste Incentive (ZWI) account. This account serves two purposes: it incentivizes the Companies to reduce landfill disposal and it funds investments to increase diversion from landfill.

Under the 2017 Rate Order, if the SF Recology Companies achieved a disposal goal by disposing fewer tons of waste at RSF than a prespecified amount, they could earn funds deposited in the ZWI account. Four tiers of progressively more difficult goals provided four benchmarks that the SF Recology Companies would need to beat to earn the funds associated with each tier. Meeting the goals of any tier earned the Companies an incentive payment equal to an additional 0.5% operating ratio, for a total possible additional 2.0% operating ratio in a year.

If, however, the Companies did not achieve these disposal goals, unearned Tier 1 and 2 funds were rebated to ratepayers while unearned Tier 3 and 4 funds were typically made available to fund diversion projects approved by Public Works and SFE. In RY 2022, all unearned funds were rebated to ratepayers.

This application proposes to continue the ZWI program with several modifications.

**First**, the application proposes to use all ZWI funds from RY 2023 to offset the RY 2024 rate increases. The rate adjustments proposed in this application assume that ZWI funds from RY 2023 are applied in this manner. ZWI funding from RSF would be used to offset the tipping fee increase. A lower tipping fee will result in a lower rate increase for the Collection Companies. ZWI funding from the Collection Companies would be further used to offset RY 2024 collection rate increases. In RY 2025, Tiers 1 and 2 only of the RY 2024 ZWI funding would be used to offset RY 2025 rate increases in the same manner as for RY 2024 if the Tier 1 and/or Tier 2 goals are not met.

**Second**, the tiers would be set using target diversion percentages rather than target disposal tons. The SF Recology Companies have discussed using diversion percentages with SFE. For RY 2024, SFE proposes that Tier 1 would equal 41% of waste diverted from landfill; Tier 2, 42%; Tier 3, 43%; and Tier 4, 44%. For RY 2025, Tier 1 would equal 44%; Tier 2, 45%; Tier 3, 46%; and Tier 4, 47%. Actual diversion percentages are reported in Table 3 of the rate reports. In RY 2022, the actual diversion percentage was 40.1%. Recology proposes that the ZWI program continue in rate years after RY 2025 until a new rate order is issued.

**Third**, the SF Recology Companies propose greater flexibility in the use of ZWI funds when the goals are not met. Since the City's Zero Waste objectives, and consequently ZWI goals, are necessarily more ambitious in future years, the Companies propose that when goals for any of the four tiers are not achieved after

---

## ZERO WASTE INCENTIVES

RY 2025, the Companies could use those funds for new diversion programs, subject to approval from the Refuse Rate Administrator and SFE. The SF Recology Companies also recommend that, before the completion of a rate year, they be permitted to propose the use of unearned ZWI funds from that rate year. For example, any unearned RY 2024 ZWI funds from any tier could be rebated to customers as an offset to the RY 2025 rate increases and any unearned RY 2025 ZWI funds could be rebated to customers as an offset to the RY 2026 COLA. If the rebated funds exceed any COLA, the funds would remain available to the Companies for investment in diversion programs.

The collection of ZWI funds and their distribution when targets are met would remain unchanged.



## VI. IMPOUND ACCOUNT

Under the 2017 Rate Order, the rates include a fixed-dollar amount for the Impound Account. This account provides funding for SFE and Public Works to support programs that benefit ratepayers, including the City's Zero Waste program, the City's toxics reduction program, and City litter patrol and block sweeping. The SF Recology Companies do not earn profit on any funding of the Impound Account. In RY 2023, funding for the Impound Account is \$23.4 million. The application includes funding for the Impound Account of \$23.8 million in each of RY 2024 and RY 2025.

## VII. REPORTING

The rate year begins on October 1. The SF Recology Companies will file rate reports with the Refuse Rate Administrator 60 days after the conclusion of the three months ending December 31, six months ending March 31, and the nine months ending June 30. After the conclusion of the rate year on September 30, Recology will file an annual rate report for the twelve months ending September 30, by January 31.

As part of an effort to increase transparency in the rate-setting and rate-reporting processes, the rate year now corresponds to Recology's fiscal year, which ends September 30. This realignment facilitates comparisons between audited financial results and rate reports. The SF Recology Companies will file with the Refuse Rate Administrator the audited combined financial statements for the Collection Companies and RSF within 15 days of their issuance. They will file at the same time as the audited financial statements a reconciliation between the annual rate report and the audited financial statements or, if the annual rate report has not yet been filed at the time of issuance of the audited financial statements, as soon as practicable afterward.