

Request for Changes to Refuse Rates Summary of Assumptions



March 7, 2023

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

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This summary describes Rate Year 2024 (RY 2024) and Rate Year 2025 (RY 2025) projected revenues and expenses for Recology Sunset Scavenger (RSS), Recology Golden Gate (RGG) (together, the Collection Companies), and Recology San Francisco (RSF) and the assumptions underlying those projections. The three companies are collectively referred to as the “SF Recology Companies” in this rate application.

I. GENERAL ASSUMPTIONS

Accounting Methodology

The SF Recology Companies use accrual accounting and U.S. GAAP for the amounts reported in this rate application except for the costs of the Recology Inc. Pension Plan, which are based on the actual cash contributions to the Plan. The SF Recology Companies do not use modified accrual accounting.

Certain expenses incurred by the SF Recology Companies are excluded for rate purposes, from rate reporting, and from this rate application. An example is advertising expenses. These expenses are not included in the reported actual costs for RY 2020, RY 2021, and RY 2022 nor are they included in the projections for RY 2023, RY 2024, and RY 2025.

Growth Assumptions

As San Francisco recovers from the COVID-19 pandemic, the revenue from residential and commercial customers is projected to grow by 2% for RY 2024 and RY 2025 compared to the prior year. This growth increases the revenue at current rates and consequently reduces the rate increase needed to meet the revenue requirement.

Likewise, the tonnage for RSF is projected to grow by 2% for RY 2024 and RY 2025 compared to the prior year. This growth reduces the projected increase in the tipping fee as the additional tons generate more revenue for RSF.

Inflation Assumptions

Many of the operating costs are projected to increase for RY 2024 and RY 2025 compared to the prior year by an inflation factor. The general inflation factor consists of a blended ratio based on the CPI forecasts for the San Francisco MSA published by the State of California Department of Finance and the San Francisco City projections from the City's five-year financial plan. The general inflation factor for RY 2024 is 3.68% and for RY 2025 is 3.05%.

RY 2023 Projections

The projections for RY 2023 were determined either by adding the forecast for nine months ending September 30, 2023 to the actuals for the three months ending December 31, 2022 reported on March 1, 2023 in the Q1 RY 2023 Rate Report or by annualizing the actuals in the Q1 RY 2023 Rate Report, depending on which methodology was more representative of the expectations for the full rate year.

GENERAL ASSUMPTIONS

Non-Rate Activity

As described in the Narrative Summary, 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 for the Collection Companies. 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 in Schedule B.1.

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 customers – 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.

II. COLLECTIONS

A. Overview

At the start of the last rate cycle in July 2017, the SF Recology Companies began an ambitious program to increase diversion and further progress toward the City's environmental goals. Over the last few years, the Collection Companies have directed single chamber trucks to collect recyclables and dual chamber trucks to collect trash and organics in separate compartments. This greater focus on recyclables collection required routing updates. In addition, the Collection Companies rolled out a new cart configuration for residential customers, replacing the existing 32-gallon trash (grey) cart with a 16-gallon option and increasing the default cart size for recyclables (blue) from 32 gallons to 64 gallons. The Collection Companies also rolled out a new onboard route management system to better monitor service.

The upcoming rate cycle will see continued efforts in these key focus areas. The Collection Companies will maintain their focus on providing excellent service while working with our City partners and customers to continue to increase diversion and to help keep the City clean. As part of this effort, several initiatives are designed to enhance existing programs, including increased outreach and education, and investment in preprocessing to remove contamination from the organics stream. The Companies are also increasing abandoned material collection and "city can" service.

B. Commercial Recycling and Composting

The Collection Companies currently operate dedicated commercial recycling and organics routes. Commercial customers are, and will continue to be, encouraged to increase their diversion rates through outreach and a diversion discount. The Collection Companies anticipate additional commercial migration to recycling and organics services. Ongoing routing efficiencies should allow the Collection Companies to manage these changes without the need to add commercial diversion routes in RY 2024 or RY 2025.

C. Apartment Diversion

Apartments are the lowest-performing customer class for diversion. Lower tenant participation, container inaccessibility, and quality control challenges all contribute to lower diversion rates. Because there are approximately 9,500 apartment building accounts (about 1,000 of which are classified as commercial), working with these customers to improve diversion is one of the best ways to achieve the City's Zero Waste goals.

During RY 2024 and RY 2025, the Collection Companies propose continuing the apartment diversion program with the goal of further decreasing the amount of material

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sent to the landfill, reducing contamination, and increasing recycling and composting tonnage. This program will focus on apartment buildings with larger volumes of divertible material. In collaboration with the San Francisco Environment Department (SFE), the Collection Companies have identified a significant opportunity to improve diversion in this category by focusing on these customers. The City has seen rapid growth in the number of properties that fall in these categories, which provides a significant opportunity for Recology to encourage greater diversion.

The Collection Companies will work closely with SFE, the Professional Property Management Association of San Francisco (PPMA), and the San Francisco Apartment Association (SFAA) to implement this initiative. The proposed program enhancements focus on tenant engagement, especially those with currently low diversion rates and the greatest potential for improvement.

D. Outreach and Education

Customer education is essential to increasing diversion and helping to achieve the City's ambitious climate action goals. Residents and businesses need to be aware of collection options and the resources available to them. The SF Recology Companies therefore propose one additional full-time employee and a renewed emphasis on diversion. The additional employee and the existing team will focus on targeted outreach and education materials to the largest customers by volume with the lowest diversion. Outreach and education will focus on partnering with customers to enhance their diversion through site visits, presentations and training.

E. Contamination Program and Fees

The organics collection program collects material from residential, apartment, and commercial customers. The program has been negatively affected by the relatively high level of contaminants, primarily plastics, in the organic material collected in carts and bins. The impacts of that contamination include higher transportation costs, increased efforts to clean the incoming material, and lower quality finished compost. Local regulators in Stanislaus County, where the organics processing facility is located, have notified the processing facility that it needs to clean up incoming materials.

To address this issue, the SF Recology Companies propose to increase outreach and education, invest in equipment and programs to pull contaminants before material is shipped to the processing facility, and increase contamination fees to ensure the costs are borne by those who create the contamination. The Collection Companies, in conjunction with SFE, propose to offer enhanced 64-gallon locking compostable carts for commercial customers to assist in minimizing contamination as the carts await service. Purchase of these enhanced locking bins is included in this rate application.

The Collection Companies propose to streamline the process used to communicate and bill customers for contamination. The proposal includes automating the customer communication process, reducing the number of warnings before fees are charged, and removing diversion discounts as necessary. The Collection Companies also propose to

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install 38 additional on-board cameras for material characterization to better capture contamination at the point of service. The addition of this technology will greatly expand available data on contamination and therefore will require an additional headcount to monitor and process the information. As a result of the above enhanced contamination program, it is expected that the Collection Companies will generate an additional \$5 million of revenue in contamination charges in RY 2024 and RY 2025.

F. Bulky Item Recycling

The Bulky Item Recycling (BIR) program is available to single family households, multi-family building owners, and tenants. The program accepts appliances, electronics, mattresses, furniture, scrap metal, wood, and other large items.

The BIR program continues to be very popular. During the last rate cycle, to meet demand, two additional routes were added, which includes four trucks and four drivers, for a total of 14 trucks and drivers to meet program demands. No program changes are expected for RY 2024 or RY 2025.

G. Abandoned Materials Collection

The Collection Companies collect abandoned materials throughout San Francisco. Abandoned materials to be serviced are identified through the City's 311 reporting system and by Recology personnel. There are five zones and six routes, with each zone having a rear loading vehicle and box van to collect the materials. Drivers within each zone are dispatched via 311 calls in addition to completing sweeps to service abandoned material. All stops and collections are documented, and material is diverted as appropriate.

The Abandoned Materials Collection program also provides support for City events, such as parades, festivals, and holidays. Recology and Public Works propose an additional zone be created for a new total of six zones to provide enhanced coverage and response time throughout San Francisco. This rate application includes all newly proposed and existing program costs. Additional supervision, administrative support, vehicle costs, and disposal costs corresponding to the expanded program and projected tonnage are also included.

H. City Can Service

The pandemic changed distribution of waste in public receptacles throughout the City. The Collection Companies propose the addition of two "city can" routes to provide service to impacted mixed residential and commercial areas of San Francisco. These areas continue to experience high levels of foot traffic and require additional city can service. The Collection Companies have and will continue to identify impacted areas and deploy resources to meet city can service needs. Additional driver labor, supervision, administrative support, and vehicle costs corresponding to the expanded program are included in this application.

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I. Clean-Up Events for Residents

In an effort to provide additional opportunities for residents to dispose of bulky items and alleviate illegal dumping, the Collection Companies propose Saturday clean-up events to be held throughout San Francisco. These events allow San Francisco residents to bring their material to a nearby centralized location for appropriate separation and diversion or disposal. To handle the operational set up, coordination with the City, and other tasks associated with these events, an additional supervisor is proposed. This new events supervisor would also work closely with event producers and SFE to ensure successful operational and service level planning and execution of Zero Waste events in the City. Working with the Recology Waste Zero events coordinator, the employee would consult with event producers on increasing diversion, decreasing contamination, and ensuring program compliance. The additional driver labor, supervision, site logistics, marketing, and disposal costs corresponding to the clean-up events are included in this application.

J. Other Programs

A complete list of programs included in the proposed rates is included in the Narrative Summary. Except as otherwise stated in this application, the proposed rates assume no significant increase above the current levels for services provided at no additional charge. For instance, the application includes approximately \$75,000 per month in costs for services provided to CBDs at no charge, which reflects CBDs' current service levels.

To provide additional diversion opportunities for large generators, the Collection Companies propose one additional commercial/multifamily recycling route on Sundays. The addition of recycling service on Sundays would provide more customers with the opportunity to increase their recycling volume by offsetting their refuse service.

III. PROCESSING AND DISPOSAL

RSF operates materials processing facilities at Tunnel Avenue and at Pier 96. At the Tunnel Avenue facility, RSF operates a transfer station, a construction and demolition debris recovery facility (iMRF), an enclosed Public Reuse and Recycling Area (PRRA) with an adjacent covered sort line, an organics transfer area (West Wing), a household hazardous waste facility, and scales. At Pier 96, RSF operates a large-scale material recovery facility (Recycle Central) that processes residential and commercial recyclables. RSF's sustainable crushing operation, currently at Pier 94, has ceased operation as the Company works to clear the site by August 2023. The revenues and expenses associated with this operation appear through RY 2023 but have not been included in any projections for RY 2024 and beyond.

A. Incoming Tons

Total tonnage is based on incoming tons for the three months ended December 31, 2022 and annualized for RY 2023. The RY 2023 tons are grown by 2% for each of RY 2024 and RY 2025. Detailed tonnage projections are provided in Schedule D.5. Overall, total tons are expected to remain consistent with current levels. Trash and iMRF tons are slightly lower, while organics and Recycle Central tons are up slightly.

The volume of various recyclable materials processed at Recycle Central has changed in recent years. These changes include evolving manufacturing practices (such as the development of lighter-weight plastic bottles and cans), manufacturers' increasing preference for glass containers over plastic, and consumer spending habits (such as increased consumption of digital media and online shopping) that have reduced volumes of newspaper and mixed paper and have increased volumes of cardboard.

At the Tunnel Avenue facility, material volumes have also changed. Today, incoming organic tons have stabilized at approximately 370 tons per day, recovering slightly from a large drop at the start of the COVID-19 pandemic. While this volume is expected to remain constant through RY 2025, the volume diverted from landfill will decrease slightly as new efforts to remove contaminants will result in lower volumes shipped to the organics processing facility. Volumes of construction and demolition debris received at the iMRF have declined significantly since the start of the pandemic and are down by approximately 66% from the pre-pandemic volumes.

Some material, including material from City-owned public trash receptacles and street sweeping, is excluded from the RSF revenue base used for rate setting based on a longstanding agreement to accept certain material gathered by Public Works without charge. The projected volume of this material is therefore not included in the calculation of projected revenue derived from tons of material received at RSF.

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B. Disposal Tons

Disposal tons are defined as the volume of material delivered to landfill. Disposal tons are delivered to the Hay Road landfill under the San Francisco Landfill Disposal Agreement. Projected disposal tons for RY 2024 and RY 2025 have increased just under 2% due to expected growth, partially offset by increased diversion.

C. Diverted Tons

Diverted tons are defined as incoming tons that are diverted from disposal. Diverted tons include commodities recovered at Recycle Central and the Tunnel Avenue facility. Projected diverted tons for RY 2024 and RY 2025 are higher due to increased incoming tons, increased outreach and education, and other efforts to promote diversion.

IV. COSTS

The following table summarizes the major rate-allowed operating cost categories of the SF Recology Companies, after elimination of intercompany disposal and processing costs at the Collection Companies, for RY 2023, RY 2024, and RY 2025:

Expense Category	RY 2023	RY 2024	RY 2025
Labor and Benefits	\$ 222,959,372	\$ 229,321,060	\$ 230,020,633
Truck Operations and Other Assets	35,424,741	36,264,281	37,100,014
Disposal and Processing	34,526,666	33,071,494	34,083,104
Facility and Operations Maintenance	15,250,286	14,543,379	14,826,510
Other	36,398,913	39,395,067	41,442,979
Capital	27,841,111	32,133,018	34,165,672
TOTAL	\$ 372,401,088	\$ 384,728,298	\$ 391,638,912

A. Labor and Benefits

1. Salaries and Wages

Union wages reflect increases detailed in the collective bargaining agreements, effective as of January 1, 2022. Wage increases for calendar year 2023 equaled 4% and increases for calendar years 2024 – 2026 are 3.5%. Non-union wages are expected to rise at the same rates over RY 2024 and RY 2025.

Payroll expenses are computed based on the projected employee count and wage increases, as described above. Headcount has been adjusted to address business changes as a result of the pandemic. In addition to the new positions described above, positions have been added since RY 2022 to improve supervision and better manage facility and fleet maintenance as well as provide new cardboard collection services, improve coverage in the Tenderloin District, and improve Bulky Item Collection service. Additional employees to support accounting, rate analysis, and rate reporting are also included.

2. Payroll Taxes

Payroll taxes are projected based on current city, state, and federal tax rates and are calculated as a percentage of wages.

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3. Pension and 401(k)

Pension costs consist primarily of projected cash contributions within the Employee Retirement Income Security Act (ERISA) pension plan funding guidelines, as calculated by Recology's pension plan actuary for the Recology Inc. Pension Plan.

The SF Recology Companies' share of Plan contributions is expected to be \$23,532,442 in RY 2024 and \$17,599,530 in RY 2025. Based on analysis from Recology's pension plan actuary, the Plan will be 100% funded before the end of RY 2025. The rate projections reflect a lower contribution in RY 2025 as the Plan is projected to reach full funding during RY 2025. Market volatility, affecting plan assets, and any pension obligation changes could affect that projection, and further contributions may be required in the future based on actual Plan asset returns and changes to service levels or benefits.

RSF also provides pension benefits for employees represented by the Operating Engineers Local 3 under a separate multi-employer union-sponsored plan. This plan is funded as a cost per hour for each participating employee. The contribution per hour for that plan is \$11.01 as of January 2023 and is expected to remain the same for RY 2024 and RY 2025.

Pension costs also include matching contributions to a Recology-sponsored 401(k) plan for non-union employees. The estimated contributions to that plan for RY 2024 and RY 2025 is \$328,628 for both years and are based on projected contributions for RY 2023, adjusted for increased headcount.

4. Health Insurance

Health and welfare programs are offered to Recology employees through several service providers. Programs include medical, prescription drug, dental and vision coverage, long-term disability, life insurance, and employee assistance programs. The programs are managed by Recology Inc., and the costs are allocated to the operating affiliates based on their specific participation and programs offered. No profit is included in the allocated costs in the rate calculation.

The projected health and welfare benefit costs contained in this rate application are based on anticipated RY 2023 costs, inflated by 4.7% for calendar 2024 and 6.2% for calendar 2025. The inflation factor was developed by third-party actuaries and is based on specific program demographics and historical cost changes.

Post-retirement costs in this rate application reflect the cost of participation in the Retirement Security Plan (RSP), sponsored by the Teamsters Benefit Trust. The RSP provides post-retirement medical benefits to union members who qualify under the terms of the applicable collective bargaining agreements. The RSP cost is paid monthly for each eligible employee. These costs have remained relatively flat over the last two years and are not expected to increase in RY 2024. These costs are projected to increase using the general inflation factor in RY 2025.

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5. Workers' Compensation

Workers' compensation covers the costs associated with workers injured on the job. These costs arise from temporary and permanent disability, medical evaluation and care, claims administration, insurance premiums, legal fees, and ancillary administrative functions. These costs reflect the share allocated to the SF Recology Companies in a pooled risk program for all Recology companies. The allocation follows standard actuarial practices and reflects payroll, participant company risk, and historical claims performance. No profit is included in the allocated costs in the rate calculation.

B. Truck Operations and Other Assets

1. Repairs and Maintenance, Parts, Tires, and Tubes

Equipment and vehicle repairs and maintenance costs are based on historical costs adjusted for inflation and specific items identified by the maintenance teams. Outside repair costs reflect costs for major repairs to vehicles and costs of towing and other third-party support services. Parts, tires, and tubes are projected for RY 2024 and RY 2025 based on actual costs for the three months ending December 31, 2022 and forecasted costs for the nine months ending September 30, 2023. These costs are adjusted for inflation and partially offset by the lower cost of maintenance for the replacement vehicles purchased in RY 2023, RY 2024, and RY 2025.

2. Fuel and Oil

Fuel costs continue to be volatile and have risen sharply in the recent past. Fuel costs are based on volumes consistent with current use and projected to remain the same for RY 2024 and RY 2025. Prices per gallon for various fuel types are based on current prices per gallon, adjusted to account for expected inflation and adjusted to reduce the impact of any temporary seasonal variations. The price of liquified natural gas (LNG), used to power the majority of the long-haul fleet, experienced a significant (3X) increase in January and February 2023. The rate projection assumes that for RY 2024 and RY 2025 the LNG price reverts to the long-term average, adjusted for inflation.

3. Taxes and Licenses and Permits

Taxes listed include personal property taxes on equipment and other assets and San Francisco business taxes based on revenue. Projected tax costs are based on estimates of asset costs, revenue, headcount and other measures that are used to calculate taxes.

Licenses and permits include costs for Department of Motor Vehicle registrations, Department of Public Health license fees, and Public Works debris box permits. Costs for the Department of Public Health license fees are based on the actual amount paid in RY 2023, adjusted for general inflation. Licenses and permits costs also include the cost of over-the-road vehicle licenses and a permit for the City of Brisbane, currently estimated at \$4.3 million for RY 2024 and \$4.4 million for RY 2025. This fee covers

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required permits for recycling operations that take place on Recology properties within Brisbane. Costs for other licenses and permits for RY 2024 and RY 2025 are expected to increase with general inflation from RY 2023 levels.

C. Disposal and Processing

1. Disposal and Hauling Costs

Disposal costs for RY 2024 and RY 2025 are based on projected tonnage and the disposal rates, adjusted using the general inflation rate, in the San Francisco Landfill Disposal Agreement. Disposal tonnage, which is increasing with projected revenue growth, includes residual from Recycle Central and tonnage from the Tunnel Avenue transfer station. In addition, concrete, dirt, and other small bits of material recovered from the iMRF, including materials that can be used at the landfill for cover, construction, and facility maintenance activities are also hauled to the Hay Road Landfill. The RY 2024 projections include an expense of \$540,000 for a pilot program on black cart processing.

External freight costs for hauling to recycling markets have risen dramatically in recent years due to increases in fees at the Port of Oakland. These increased fees are due to higher fuel costs, California AB5 compliance, and higher labor charges due to increased wait times at the Port. In addition, freight costs have increased due to the need to haul to more distant ports. Freight costs in RY 2023 projections include approximately \$3.7 million of costs related to hauling material from Sustainable Crushing to the Hay Road Landfill as part of winding down that operation. There are no freight costs associated with Sustainable Crushing in projections for RY 2024 or RY 2025.

2. Organics Processing Fees

Organic material is hauled by RSF, primarily to Recology Blossom Valley Organics – North (BVON), located in Vernalis, California. The material is processed to remove contaminants and then moved through the composting process to create finished compost, which is then sold. The proposed BVON tipping fee for organic material for RY 2024 and RY 2025 is based on the current tipping fee, adjusted for general inflation. The BVON tipping fee includes the cost of disposal of contamination removed from the feedstock and credit for the revenue generated from the sale of finished compost.

D. Facility and Operations Maintenance

1. Property Rental

Intercompany property rental costs are derived from lease costs for properties owned by Recology Properties and used by the SF Recology Companies to serve San Francisco ratepayers. There is no change in RY 2024 and RY 2025 for any intercompany property rental cost. The rents are based on the cost of properties, a cost of capital, and a fixed recovery period. No profit is included in these rental costs in the rate calculation.

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Intercompany rentals are the subject of the December 2022 settlement agreement between Recology and the City. Under that agreement, intercompany property rental costs are no longer included in the rates once the total rental amount described in the preceding paragraph has been recovered. In addition, if any property is no longer used to serve ratepayers, the cumulative rents recovered through rates for that property will be placed in a balancing account.

Outside property rental costs for leasing off-site office space for customer service and administrative operations are included and are expected to increase with inflation from 2023 levels. Outside rental costs also include lease payments to the Port of San Francisco for Recycle Central at Pier 96. The Pier 96 rent was increased by 4.88% on January 1, 2023. RSF expects to enter a new agreement with the Port, the terms of which are yet to be agreed. A rental cost increase of 3% per year is included based on initial discussions.

Payments to the Port for the concrete and asphalt recycling operations at Pier 94 are expected to end in RY 2023. The operation has ceased and the Company is currently working to clear and vacate the property. There are no rental costs for Pier 94 in projections for RY 2024 or RY 2025.

2. Utilities

Utilities costs for RY 2024 and RY 2025 at Recycle Central and the Tunnel Avenue facility are projected based on forecasted costs per unit for electricity and water, adjusted for general inflation.

E. Other

1. Professional and Contract Services

Cost projections for RY 2024 and RY 2025 for professional and contract services are based on current experience and expected future needs for services during these rate years. Accounting costs have increased due to new reporting requirements under the December 2022 settlement agreement between Recology and the City. Projections of engineering costs for RY 2024 and RY 2025 have been adjusted for anticipated costs for facility development projects including engineering and permit work related to new preprocessing equipment at the West Wing, environmental impact report development for the Tunnel and Beatty site, and structural and geotechnical studies at Pier 96.

2. Corporate Services

The SF Recology Companies are subsidiaries of Recology Inc. Certain services, for example, Human Resources (HR) and Information Technology (IT), are managed centrally by Recology Inc. to provide cost efficiencies to Recology's operating subsidiaries. The costs of these centrally managed services are allocated to the SF Recology Companies based on their outside net revenue as a percentage of the total net revenue across the allocation base. Intercompany revenue is eliminated for this

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calculation. Since the majority (77%) of RSF's net revenue is intercompany, received from the Collection Companies, the allocation percentages are low relative to the size of RSF's operations. There is no profit included in the allocation.

Human Resources provides management of benefits, employment law, employee training, and other employee management support services. The cost projections for RY 2024 and RY 2025 are based on RY 2023 projected costs for Recology Inc.'s HR Department, adjusted for general inflation.

Corporate Administration provides general operations and corporate support services. Corporate Administration cost projections for RY 2024 and RY 2025 are based on RY 2023 projected costs for these services provided by the corporate office, adjusted for general inflation.

Environmental Compliance provides planning, permitting, and compliance support services. Environmental Compliance cost projections for RY 2024 and RY 2025 are based on RY 2023 projected costs for Recology Inc.'s Environmental Compliance Department, adjusted for general inflation.

Information Technology provides systems support for all digital technologies, including computers, phones, etc. Increased costs in RY 2023 reflect hiring and technology investments to modernize Recology's digital infrastructure. IT cost projections for RY 2024 and RY 2025 are based on RY 2023 projected costs for Recology Inc.'s IT Department, adjusted for general inflation.

Commitment to Customer (C2C) is a customer service, operations, and billing system modernization project currently underway. A pilot project is up and running. C2C is expected to roll out to San Francisco operations in RY 2025. Implementation of the new system will allow for improvements in customer experience and better integration of customer service, operations, and billing.

Corporate Finance provides audit, treasury, tax, and other financial services. Projected Corporate Finance costs for RY 2024 and RY 2025 are based on RY 2023 projected costs of Recology Inc.'s Finance Department, adjusted for general inflation. Costs associated with specific activities for the SF Recology Companies, including those required by the December 2022 settlement agreement and new reporting requirements expected with the new rate order, are reflected in professional services and payroll costs for the SF Recology Companies and not here.

Internal Audit provides internal audit services. Projected internal audit costs for RY 2024 and RY 2025 are based on RY 2023 projected costs of Recology Inc.'s Internal Audit Department, adjusted for general inflation.

Sustainability provides support for sustainability issues, initiatives, and practices. Sustainability cost projections for RY 2024 and RY 2025 are based on RY 2023 projected costs, adjusted for general inflation.

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3. Operating Supplies, Office Supplies, and Telephone

Costs in RY 2024 and RY 2025 for operating supplies and office supplies at are projected based on actual costs for the three months ending December 31, 2022, annualized for RY 2023 and adjusted for general inflation. Costs related to telephone are based on actual costs for the three months ending December 31, 2022, annualized for RY 2023 and adjusted for general inflation.

4. General and Vehicle Insurance

The SF Recology Companies participate in a risk pool with all other Recology operating companies to manage insurance costs. Insurance premium projections for RY 2024 and RY 2025 are based on information provided by Recology's insurance brokers and actuaries, including projected claims costs associated with fleet operations. Costs for claims, reserves and program administration managed by Recology Inc. are allocated to the SF Recology Companies based on these Companies' claims experience. Other costs are allocated based on a series of measures developed to reflect the SF Recology Companies' relative size and risk profile. No profit is included in the allocated costs in the rate calculation.

5. Other Expenses

Other expenses include community outreach, medical expenses, shoes and uniforms, bank service charges, and other miscellaneous items. Community outreach costs include the costs of working with community groups to promote Zero Waste initiatives and Recology and City recycling and organics programs.

F. Capital

1. Leases

Requirements for trucks, equipment, and leasehold improvements are projected for RY 2024 and RY 2025 based on a replacement schedule and anticipated facility and program needs. Lease costs are added as equipment is acquired and leased over specified lease terms. These costs are managed by Recology Leasing and include the cost of the asset plus a cost of capital, net of any salvage value. No profit is included in lease costs. Lease terms are assigned as follows:

Trucks and rolling equipment:	7 years
Stationary equipment:	10 years
Furniture and fixtures:	8 years
Facility improvements:	15 years

Lease rates are based on the asset lives shown above using an implicit interest rate based on available lease line quotes and interest rates under Recology Inc.'s credit facility. For RY 2024 and RY 2025 projections, the rate used was 6.0%. The actual interest rate will be set for each new lease as it is entered into, on a monthly basis,

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based on Recology Inc.'s borrowing costs at that time. Lease additions for RY 2024 and RY 2025 consist primarily of trucks acquired to comply with the California Air Resources Board regulations, other rolling stock, and processing equipment for improved contamination management.

2. Depreciation

Property and equipment, including major capital improvements, are depreciated on a straight-line basis over the estimated useful lives of the assets.

Additions of property and equipment and major capital improvements for RY 2024 and RY 2025 projections consist primarily of processing equipment for improved contamination management and various leasehold improvements at Pier 96 and other properties. The projections assume the depreciation will begin mid-year.