## April $14^{\text {th }} 2023$ Submission Updates to Recology's Initial Refuse Rate Change Request (Submitted March $7^{\text {th }}, 2023$ ) <br> Updates received by the Refuse Rate Administrator 4/08/23-4/14/23

This document includes all non-confidential refuse rate change request submission files which Recology has provided to the Refuse Rate Administrator (RRA) during the week of 4/08/23-4/14/23 in response to the RRA's ongoing review and requests. The RRA plans to post additional submissions on a weekly basis as they are received.

This week's submissions include:

- Reconciliation between RY22 rate report and Rate Application for Commercial Customers
- Revised Rate Change Request Schedule A. 2 Total Sources and Total Uses
- Revised Rate Change Request Schedule J. 2 Detailed Capital and Lease Expenses
- Recology 2023 Rate Application Balancing Account Exhibit
- Recology 2023 Rate Application Cost Of Living Adjustment (COLA) Exhibit
- Recology 2023 Rate Application Pension Exhibit
- Recology SF 2023 Organizational Chart
- Recology Presentation to the Refuse Rate Board April 13, 2023

Reconciliation between RY22 rate report and Rate Application

| Rate Report | Actuals |
| :--- | ---: |
| Commercial | $140,881,141$ |
| Commercial Compactors | $24,758,404$ |
| Debris Box Revenue | $14,000,565$ |
|  |  |
|  |  |
| Total on Rate report | $\mathbf{1 7 9 , 6 4 0 , 1 1 0}$ |


| Rate Application | Actuals |  |
| :--- | ---: | :--- |
| Commercial | $126,948,119$ | reduced by $85 \%$ of City Services/Contract Customers |
| Commercial Compactors | $22,299,635$ | reduced by $15 \%$ of City Services/Contract Customers |
| Regulated Debris Box | $2,968,522$ |  |
| Open Market Debris Box | $11,032,043$ | this is currently presented in cell X6 of tab A.2, Other services |
| City Services Contract | $8,731,157$ |  |
| Contract Customers | $7,660,634$ |  |
| Variance |  |  |
|  | $\mathbf{1 7 9 , 6 4 0 , 1 1 0}$ |  |
|  | $\mathbf{1 0 )}$ |  |




| DESCRIPTION | CX \# | Amount |  |
| :---: | :---: | :---: | :---: |
| SPLIT SIDE LOADER | CX330 | \$ | 222,425 |
| SPLIT SIDE LOADER | CX330 | \$ | 222,425 |
| SPLIT SIDE LOADER | CX330 | \$ | 222,425 |
| SPLIT SIDE LOADER | CX330 | \$ | 222,425 |
| SPLIT SIDE LOADER | CX330 | \$ | 222,425 |
| SPLIT SIDE LOADER | CX296 | \$ | 441,229 |
| SPLIT SIDE LOADER | CX296 | \$ | 441,229 |
| SPLIT SIDE LOADER | CX296 | \$ | 441,229 |
| SINGLE SIDE LOADER | CX331 | \$ | 418,853 |
| SINGLE SIDE LOADER | CX331 | \$ | 418,853 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| SPLIT SIDE LOADER | CX330 | \$ | 447,307 |
| Total |  | \$ | 8,641,204 |

Sunset Scavenger

| Item \# | Description | Amount |  |
| :---: | :--- | :--- | ---: |
| CX343 | R/L 4 Axle 25 yd Single Stream | $\$$ | 344,000 |
| CX343 | R/L 4 Axle 25 yd Single Stream | $\$$ | 344,000 |
| CX343 | R/L 4 Axle 25 yd Single Stream | $\$$ | 344,000 |
| CX343 | R/L 4 Axle 25 yd Single Stream | $\$$ | 344,000 |
| CX149 | F/L - 4 Ax 40 yd Cam,AxleScale | $\$$ | 406,000 |
| CX331 | S/L 3 Axle, MANUAL 29YD Bridge | $\$$ | 404,000 |
| CX331 | S/L 3 Axle, MANUAL 29YD Bridge | $\$$ | 404,000 |
| CX296 | S/L 3 Axle 29yd Bridgeport Man | $\$$ | 425,000 |
| CX296 | S/L 3 Axle 29yd Bridgeport Man | $\$$ | 425,000 |

## Golden Gate

## Exhibit: Notional Balancing Account

## Background

In its May 16, 2022 Public Integrity Review of the refuse rate-setting process, the Controller's Office recommended the creation of a balancing account to regulate the profits earned from the rates by Recology Sunset Scavenger (RSS), Recology Golden Gate (RGG), and Recology San Francisco (RSF and, collectively, the SF Recology Companies). A balancing account would help ensure that rates "remain just and reasonable over time." It would also "be used to stabilize rates and protect ratepayers and Recology from extreme rate swings in anomalous years." This Public Integrity Review also recommended various reporting requirements in connection with the balancing account.

In the December 2022 settlement agreement between the SF Recology Companies and the City and County of San Francisco, the parties agreed to create a balancing account with an initial notional credit of $\$ 25$ million. This initial notional balance was decreased to account for below-target profits earned in Rate Year (RY) 2022 and for revenues foregone by RSS and RGG by applying a COLA on January 1, 2023 instead of on July 1, 2022, as originally scheduled. In addition, the December 2022 settlement agreement requires that the notional balance be adjusted for above- or below-target profits earned in RY 2023. Any notional balance remaining to the benefit of the ratepayers after accounting for profits earned during RY 2023 will be used to offset rate increases by equal amounts each rate year between RY 2025 and RY 2029. The December 2022 settlement agreement also requires the notional balance to be increased if certain properties, for which rental expenses have been paid by ratepayers, are no longer used to provide service to ratepayers.

The SF Recology Companies' Request for Changes to Refuse Rates, submitted March 7, 2023, proposes the ongoing use of a notional balancing account with some modifications, as described more fully in section 3, below. Beginning with periods regulated under the new Rate Order (i.e., beginning with profits earned in RY 2024), the notional balance would be adjusted for $100 \%$ of the difference between actual net profits or losses earned in a quarter, as 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. Since the notional balance will be adjusted based on year-to-date results each quarter, the amount calculated for each quarter will replace the prior quarter amount until the annual amount of the notional balance is calculated.

After each rate year-end, the notional balance will be available to assist in long-term rate stabilization. If the notional balance due to actual profits earned in a rate year is above the target profit, $100 \%$ of that notional balance will be used to reduce rates charged in the second subsequent rate year. If the notional balance due to actual profits earned or losses incurred in a rate year is below the target profit, 100\% of that notional balance will be used to increase rates charged in the second subsequent rate
year. For example, the notional balance due to actual profits earned (or losses incurred) in RY 2024 will be used to adjust rates for RY 2026.

The target profit for a rate year will be adjusted to account for any rate adjustments due to notional balances in the balancing account or any Zero Waste Incentives (ZWI) earned because the SF Recology Companies met ZWI goals. In other words, a balancing account-related adjustment to the rates, up or down, or ZWI funds earned by the SF Recology Companies does not change the target profit that would otherwise have been applied in the absence of any balancing account-related adjustments to the rates or any ZWI funds earned. For example, if rates were increased by $\$ 1$ million as a result of the notional balance of the balancing account in a prior rate year and the SF Recology Companies earned $\$ 1$ million in ZWI funds, the target profit for the year in which these activities occur would be increased by $\$ 2$ million.

The following table summarizes these concepts:

|  | Notional <br> Balance | Impact to <br> Future Rates | Adjustment to Target <br> Profit |
| :--- | :--- | :--- | :--- |
| Actual profits <br> above target <br> profit, adjusted | positive <br> balance | reduce rates | decrease target profit by <br> positive balance amount |
| Actual profits or <br> losses below <br> target profit, <br> adjusted | negative <br> balance | increase rates | increase target profit by <br> negative balance amount |

Balancing account-related rate adjustments will be applied in addition to and at the same time as regularly scheduled rate changes or COLAs.

## Sample Model

Rates are set with the expectation that the SF Recology Companies will earn profits using a $91 \%$ operating ratio on operating-ratio eligible expenses. Because the rates must be set using projected revenues and projected expenses, actual results will vary from projections. The notional balancing account is designed to keep the actual profits earned by the SF Recology Companies consistent with the target profit using a $91 \%$ operating ratio. In the periods regulated under the new Rate Order, the rate application proposes two balancing-account-related adjustments to the rates: (1) the notional balance accumulated under the provisions of the December 2022 settlement agreement, which will be used to reduce rates for RY 2025 - RY 2029, and (2) the notional balance accumulated as a result of actual profits earned or losses incurred above or below the target profit, beginning with RY 2024 and continuing into the future, adjusted for any use of these notional balance amounts, positive or negative.

The following table illustrates the mechanics of hypothetical rate adjustments assuming (1) a RY 2023 ending notional balance of $\$ 5$ million; (2) on-target profits earned in

RY 2024; (3) \$1 million in net profits earned above target in RY 2025; (4) \$1 million in net profits earned below target in RY 2026 (all numbers below in millions):

|  | $\begin{array}{\|l\|} \hline \text { RY } \\ 2024 \\ \hline \end{array}$ | $\begin{array}{\|l\|} \hline \text { RY } \\ 2025 \end{array}$ | $\begin{array}{\|l\|} \hline \text { RY } \\ 2026 \\ \hline \end{array}$ | $\begin{array}{\|l\|} \hline \text { RY } \\ 2027 \\ \hline \end{array}$ | $\begin{array}{\|l\|} \hline \text { RY } \\ 2028 \\ \hline \end{array}$ | $\begin{array}{\|l\|} \hline \text { RY } \\ 2029 \\ \hline \end{array}$ | $\begin{aligned} & \text { RY } \\ & 2030 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Profits earned above or below target | 0 | 1 | -1 |  |  |  |  |
| Impact on revenue from ratepayers |  |  |  |  |  |  |  |
| Dec 2022 settlement balancing account | 0 | -1 | -1 | -1 | -1 | -1 |  |
| RY 2024 profits |  |  | 0 |  |  |  |  |
| RY 2025 profits |  |  |  | -1 |  |  |  |
| RY 2026 profits |  |  |  |  | 1 |  |  |
| Total | 0 | -1 | -1 | -2 | 0 | -1 |  |
| Impact on rates (rate adjustment) |  |  |  |  |  |  |  |
| Dec 2022 settlement balancing account | 0 | -1 | 0 | 0 | 0 | 0 | 1 |
| RY 2024 profits |  |  | 0 |  |  |  |  |
| RY 2025 profits |  |  |  | -1 | 1 |  |  |
| RY 2026 profits |  |  |  |  | 1 | -1 |  |
| Total | 0 | -1 | 0 | -1 | 2 | -1 | 1 |

The "Impact on revenue from ratepayers" section illustrates the impact of these adjustments on the revenue required from ratepayers. A $\$ 1$ million downward adjustment to the rates in a rate year means that $\$ 1$ million less in revenue is required from ratepayers.

The "Impact on rates" section illustrates the mechanics of rate adjustments. Because the December 2022 settlement agreement requires a rate adjustment beginning in RY 2025 and continuing for five rate years, the RY 2025 rates will be adjusted lower. There is no further rate adjustment due to the December 2022 settlement agreement until RY 2030 because there is no change to the dollar amount of the adjustment in the intervening rate years. (The notional balance following the calculation of above- or below-target profits earned in RY 2023 will be applied equally across five rate years.) For RY 2030, the rates will be adjusted upward because the downward rate adjustment provided by December 2022 settlement agreement will have been fully realized. Similarly, for above- or below-target profits earned in RY 2025 and RY 2026, the adjustment applied in one rate year will be reversed in the following rate year because $100 \%$ of the notional balance will have been realized. For example, 100\% of the notional balance resulting from above-target profits earned in RY 2025 will be used to reduce the RY 2027 rates.

## Proposed Rate Order Text

The SF Recology Companies shall maintain a notional balancing account to be used for stabilizing the rates charged to ratepayers.

## 1. Calculation of Increases or Decreases

In Q4 of each rate year, beginning with Q4 RY 2024 and continuing until a subsequent Rate Order shall take effect, the SF Recology Companies shall increase or decrease the notional balance of the balancing account to account for an estimate of the actual profits earned or losses incurred year-to-date as described in this section. In Q1 of the following rate year, an adjustment will be made to the notional balance of the balancing account to account for the final actual profits earned or losses incurred for the prior rate year. The year-to-date increase or decrease shall be calculated by taking the difference between actual net profits earned or losses incurred during the year-to-date period reported in the quarterly rate report, as applicable, and (actual operating ratio-eligible expenses for the applicable year-to-date period divided by $91 \%$ operating ratio less actual operating ratio-eligible expenses) as illustrated below, where "expenses" means operating ratio-eligible expenses and "actual net profits" means actual net profits or losses based on actual costs and revenues reported in the quarterly or annual rate reports:

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

The target profit shall be (1) increased by the amount of any negative notional balance applied to the rates in that rate year; (2) decreased by the amount of any positive notional balance applied to the rates in that rate year; and (3) increased by the amount of any ZWI funds earned because the SF Recology Companies met ZWI goals. These adjustments, if any, shall result in the adjusted target profit. The SF Recology Companies shall report all such adjustments as part of the reporting requirements described below.

Above- or below-target profit, as adjusted, shall be calculated separately for RSS and RGG, on the one hand, and for RSF, on the other. The results of these calculations shall be added to obtain a combined adjusted net above- or below-target profit.

A positive value of the combined adjusted net above- or below-target profit shall result in the SF Recology Companies increasing the notional balance of the balancing account in an amount equal to that positive value. A negative value of the combined adjusted net above- or below-target profit shall result in the SF Recology Companies decreasing the notional balance of the balancing account in an amount equal to that negative value, including below zero, if applicable.

## 2. Reporting

Each annual rate report shall include a schedule showing all adjustments to the notional balance of the balancing account during the period of the report and shall include beginning and ending notional balances. Since the notional balance shall be adjusted prior to the filing of the annual rate report, only the final amount will be reported.

With the submission of the SF Recology Companies' audited financial statements and annual rate report to the Refuse Rate Administrator, whichever occurs later, the SF Recology Companies shall submit a schedule of the activities in the balancing account over the same period. This schedule must be separately the subject of and accompanied by an Agreed Upon Procedures report issued by third-party auditors.

## 3. Use of Notional Balance

The notional balance of the balancing account as reported in the schedule filed concurrently with the SF Recology Companies' audited financial statements or annual rate report shall be applied to adjust rates in the second rate year subsequent to the rate year for which the notional balance is reported. If the notional balance at the end of a rate year is positive, $100 \%$ of that positive notional balance shall offset rates charged in the second subsequent rate year. The amount of the offset shall cause the notional balance of the balancing account to decrease by an equal amount. If the notional balance at the end of a rate year is negative, $100 \%$ of that negative notional balance shall increase rates charged in the second subsequent rate year. The amount of the increase shall cause the notional balance of the balancing account to increase by an equal amount.

The adjustment to the rates described in the preceding paragraph shall be applied in addition to and at the same time as regularly scheduled rate changes for COLAs or new rates set by the Rate Board. For RY 2025, the rate adjustment due to the notional balance in the balancing account at the conclusion of RY 2023, as provided in the December 2022 settlement agreement, shall occur at the same time as the October 1, 2024 rate adjustment provided by this Rate Order.

## Exhibit: COLA and Other Annual Rate Adjustments

## Background

A cost of living adjustment (COLA) allows for annual rate adjustments for changes in the price of the goods and services used by the SF Recology Companies to provide service. A COLA helps keep rates more closely aligned with the SF Recology Companies' actual costs. It does not adjust rates for increases due to changes in service levels or mix of services, nor does it adjust for new costs. For example, if the price of fuel increases by $5 \%$, this increase would be captured by the COLA. But if the use of fuel increased, a COLA would not adjust for this increase in operating costs.

A COLA has several benefits, including avoiding the time and expense of rate change proceedings each year and helping to reduce the likelihood of large jumps in rates when a new rate order is issued. A COLA mechanism has been used for San Francisco rates since the 2001 rate adjustment cycle, with some methodological modifications over the years.

The COLA mechanism adopted as part of the last rate order is comprised of various expense categories or "factors," such as fixed labor or fuel. By using a combination of factors to assemble a COLA - rather than using a single "inflation" number, such as the Consumer Price Index - a more granular calculation can be performed that accounts for different relative rates of inflation for different expense categories. The rate of inflation from the time of the immediately preceding rate change for each factor is calculated using data from an appropriate source, such as an index of diesel prices for the renewable diesel factor. The inflation percentages for each factor are then adjusted for their relative weight to calculate an overall COLA for RSF and, separately, for the Collection Companies. The factors, sources for inflation percentages, and weights adopted in the 2017 rate order are as follows:

| COLA Factor | Source/Index | RSF <br> Weight | RSS/RGG <br> Weight |
| :--- | :--- | ---: | ---: |
| Fixed labor | As per Collective Bargaining Agreements | $40.8 \%$ | $52.5 \%$ |
| Variable labor | SF-CPI (U) | $13.3 \%$ | $6.7 \%$ |
| Health and welfare | Mercer Analysis or equivalent | $10.4 \%$ | $12.1 \%$ |
| Pension | City pension factor or rate from actuarial <br> report | $4.8 \%$ | $6.8 \%$ |
| Renewable diesel | Weekly California No. 2 Diesel Retail <br> Prices | $1.4 \%$ | $0.85 \%$ |
| Natural gas fuel | PG\&E Series G-NGV1 | $0.9 \%$ | $0.15 \%$ |
| Materials | PPI | $\mathbf{2 3 . 6 \%}$ | $14.3 \%$ |
| Capital | No inflation | $4.8 \%$ | $6.6 \%$ |
| Total |  | $\mathbf{1 0 0 \%}$ | $\mathbf{1 0 0 \%}$ |

Historically, the COLA adjustment for RSS/RGG is further modified by adjusting for any new rebate for unearned Zero Waste Incentive (ZWI) funds and for rebates included in the prior year's rate adjustment.

## Current Proposal

A COLA would be applied to the rates beginning in RY 2026 and each rate year thereafter until new rates are set in a subsequent rate order. The SF Recology Companies' rate application proposes to continue a COLA mechanism similar to that described above but with several modifications.

## 1. Weighting

The SF Recology Companies propose to modify the COLA methodology described above by adjusting the relative weights of the COLA factors each year. Whereas in the past the weights were fixed at the time of the rate application, this application proposes that the weights in each rate year would be based on the actual costs reported in the annual rate report of prior rate year. For example, the cumulative costs for the period October 1, 2023 - September 30, 2024 would be used to determine the relative weighting of the cost components of the COLA factors used in the calculation of the COLA to be used for setting new rates for RY 2026 (effective October 1, 2025). Making this change allows a more accurate weighting of these cost categories and allows the relative weights to adjust year to year as the SF Recology Companies' actual costs and mix of costs change.

## 2. Period of Index Data

For the COLA factors based on an index, the SF Recology Companies will use the most recent available index data at the time of the COLA submission for each index listed above. These index values will be compared to the index value at the same point 12 months previously to calculate the change over the 12-month period (e.g., the change between June 2025 and June 2024). For the fixed labor factor, the change will be calculated by taking the fixed labor cost increases from the relevant collective bargaining agreements over the relevant time period. Because the SF Recology Companies' collective bargaining agreements provide for wage increases on January 1, that is, three months after the beginning of a rate year, the fixed labor factor will be calculated by multiplying the percent of the fixed labor increase by 0.75 . For example, the wage increase that would be effective January 1, 2026 would be used in the COLA calculation for the rate change to occur on October 1, 2025.

## 3. ZWI

The SF Recology Companies propose that the impact of the expiry of the ZWI rebate and the new rebate for the upcoming rate year be calculated by dividing the ZWI dollar amount by the revenue estimated to be collected from ratepayers for RY 2025.

## 4. Treatment of Pension

The SF Recology Companies propose that the pension factor be removed from the list of COLA factors and instead that changes in pension contributions be treated similarly to the ZWI rebates. Rather than weight the increase or decrease in pension contributions as part of determining an overall COLA for RSF and for the Collection Companies, the change in the projected pension contribution, grossed up for the operating ratio, divided by the revenue estimated to be collected from ratepayers ${ }^{1}$ for the upcoming rate year would be added to or subtracted from the COLA.

## 5. Notional Balancing Account

Any use of the notional balance of the balancing account will be applied at the same time as regularly scheduled rate changes and will be calculated by dividing the amount to be applied by the revenue estimated to be collected from ratepayers for the upcoming rate year. Any amounts used in the prior year will need to be added back and will be calculated by dividing the amount by the revenue estimated to be collected from ratepayers for the upcoming rate year.

## Refuse Rate Administrator Review

The SF Recology Companies must follow the COLA methodology approved as part of this rate order in any submission of a COLA to the Refuse Rate Administrator. The Refuse Rate Administrator shall timely review the submission to ensure that it follows this methodology and accurately reflects the sources or indices required for each COLA factor. If the submission does follow this methodology and accurately reflects the required sources or indices, the Refuse Rate Administrator shall approve the COLA.

To allow the Refuse Rate Administrator sufficient time to review a proposed COLA and to allow the SF Recology Companies sufficient time to implement a rate adjustment, the SF Recology Companies will submit a proposed COLA by August 1 of the rate year preceding the rate year for which rates will be adjusted (e.g., August 1, 2025 for a RY 2026 COLA). The Refuse Rate Administrator will notify the SF Recology Companies by September 1 whether the COLA may be applied to the rates beginning on October 1.

## Example

The accompanying file shows a sample calculation for RY 2026. Assuming (A) a COLA of $6 \%$ for both RSS/RGG and RSF, the sample calculation includes annual adjustments

[^0]as a result of (B) a hypothetical rebate received in RY 2025 of the RY 2024 ZWI funding, i.e., an add back; (C) a hypothetical rebate to be received in RY 2026 of the RY 2025 ZWI funding, i.e., a use; (D) an add back of expired revenue offsets (used for RY 2025 rate adjustment); (E) a hypothetical change in the pension contribution projected in the rates for RY 2026 as compared to RY 2025; (F, G) an add back and deduction for the use of the December 2022 settlement agreement balancing account; and (H, I) an add back and deduction for the use of the ongoing balancing account.
[A] COLA Adjustment
[G] Balance to use to in RY 2026

Notional Balancing Account - Ongoing
[H] Balance used in RY 2025 that expires
[I] Balance to use to in RY 2026
[J] = Sum [A] to [I] RY 2026 Rate Adjustment
[K]
$[L]=([J]+1) \times[K]$

## Comments

6.00\% Calculated using the updated weighting based on actuals from two rate years prior (e.g. for RY 2026 will use actuals from RY 2024)
1.02\% Add back Tier 1 and 2 RY 2024 ZWI funding used as Rate Offset for RY 2025
-1.02\% Deduct Tier 1 and 2 RY 2025 ZWI funding as rebate
0.00\% Add back expired revenue offsets
-3.70\% Adjust for projected change in RY 2026 pension contributions as compared to RY 2025 estimated contributions
0.00\% Add back expired adjustment for use of notional balancing account
$0.00 \%$ Deduct for use of notional balancing account
0.00\% Add back expired adjustment for use of notional balancing account
$0.00 \%$ Deduct for use of notional balancing account
2.30\%
\$ 256.03 RY 2025 Tipping Fee
\$ 261.92 RY 2026 Tipping Fee

## RY 2025 estimated revenue from Ratepayers

Rate Year 2025 Revenue from Ratepayers
[1] Actual for 9 months ending June 2025
[2] Projection for 3 months ending September 2025

## [3]=[1]+[2] Estimated total revenue for RY 2025

## ZWI

[4] RY 2024 funding as rebated in RY 2025
$[B]=[4] /[3]$ as \% of RY 2025 estimated revenue
[5] RY 2025 Funding Tier 1 and 2
$[C]=[5] /[3]$ as \% of RY 2025 estimated revenue

## Expired Revenue Offsets

[6] RY 2025 revenue offsets other than ZWI
[D] = [6] / [3] as \% of RY 2025 estimated revenue

## Pension Contributions

[7] Estimated RY 2026 Pension Contributions
[8] RY 2025 Pension Contributions
[9] $=[7]$ - [8] Change in pension contributions
[10] $=$ [9] / 0.91 OR adjusted change in pension contributions
[E] = [10] / [3] as \% of RY 2025 estimated revenue

Notional Balancing Account - Dec 2022 Settlement
[11] Balance used in RY 2025 that expires
$[F]=[11] /[3]$ as \% of RY 2025 estimated revenue
[12] Balance to use to in RY 2026
[G] = [12] / [3] as \% of RY 2025 estimated revenue

## \$ 381,377,518 \$ 152,265,146

$\$ 2,574,145 \quad \$ \quad 1,549,834$
0.67\%
1.02\%
$\$(2,638,846) \$(1,553,050)$ amount per schedule B. 1 in SSGG Rate Model in cell 127 divided by 2 / per B in RSF Rate model in cell C23 divided by 2
-0.69\%
-1.02\%
$\begin{array}{lll}\text { \$ } & -\quad \text { - } \\ 0.00 \%\end{array}$
$0.00 \% \quad 0.00 \%$

## Combined

| $\$$ | - | $\$$ | - | $\$$ | - |
| ---: | ---: | ---: | ---: | ---: | ---: |
| $\$$ | $12,476,904$ | $\$$ | $5,122,626$ | $\$$ | $17,599,529.77$ |
| $\$$ | $(12,476,904)$ | $\$$ | $(5,122,626)$ | $\$$ | $(17,599,529.77)$ |
| $\$$ | $(13,710,883)$ | $\$$ | $(5,629,260)$ | $\$$ | $(19,340,142.60)$ |

$\$$

| - | \$ |
| :---: | :---: |
| $0.00 \%$ |  |
|  |  |
| - | \$ |
| $0.00 \%$ | - |
|  |  |

Notional Balancing Account - Ongoing
[13] Balance used in RY 2025 that expires
$[\mathrm{H}]=[13] /[3]$ as \% of RY 2025 estimated revenue
[14] Balance to use to in RY 2026
[I] = [14] / [3] as \% of RY 2025 estimated revenue
$\begin{array}{ccc} & - & \$ \\ 0.00 \% & - \\ & 0.00 \%\end{array}$
\$ $(1,000,000)$ - Example
-0.26\% 0.00\%

## Exhibit: Pension Costs

## Background

Recology Inc. currently contributes $\$ 25$ million per year to a defined-benefit pension plan (the Plan), which serves a portion of the former and current employee-owners of multiple Recology operating companies. The SF Recology Companies are allocated a share of that annual contribution based on their respective share of the total service cost as calculated by the actuaries.

The rate application includes projected cash contributions for the SF Recology Companies' share of the Plan's projected contributions for RY 2024 and RY 2025. For RY 2024, the projected contributions are $\$ 23,532,442$, and for RY 2025, the projected contributions are $\$ 17,599,530$. Recology's Plan actuary currently projects that the Plan will reach full funding as of June 2025. Accordingly, the rate application includes lower projected contributions in RY 2025 to account for the Plan reaching projected 100\% funding during that rate year. A funding level of $100 \%$ will be determined by comparing the asset value to the estimated pension obligation in quarterly reports issued by the Plan asset manager. When the asset value is equal to or exceeds the estimated pension obligation, the pension plan will be considered $100 \%$ funded. Market volatility, affecting plan assets, and any pension obligation changes could affect these projections, and further contributions may be required in the future based on actual Plan asset returns and changes to service levels or benefits.

Historically, rate applications included a constant pension cost with no projected phaseout of that pension cost. With this application, however, the pension cost included in the rates is projected to diminish and possibly to be removed altogether because Recology's Plan actuary projects that $100 \%$ funding will be reached during RY 2025. Like all expenses included in the rates, pension costs are projected and actual costs will vary from projections. The SF Recology Companies therefore propose to use the balancing account and the annual rate adjustment to adjust rates for changes to pension contributions during and beyond RY 2025 so that rates fairly reflect necessary contributions to the Plan.

In addition to the Plan costs, the SF Recology Companies also incur costs for Local 3 pension contributions and $401(\mathrm{k})$ matching for non-union employees. These amounts are projected to be $\$ 1,408,286$ in each of RY 2024 and RY 2025. These pension costs are assumed to remain constant regardless of the status of Plan contributions. The line item "pension" in the rate application and rate reports includes these amounts in addition to Plan contributions.

## Pension Component of Annual Rate Adjustment

The rate application recommends adjusting rates annually beginning with RY 2026 by the rate adjustment, which is the sum of the COLA and other revenue requirement adjustments such as ZWI. The SF Recology Companies propose that pension be
treated in the same manner as the use of and expiry of ZWI rebates in calculating the rate adjustment for the upcoming rate year. The projected change in pension contributions is the difference between the contributions used in rate projections in the current rate year and the projected contributions for the next upcoming rate year. The percentage impact on the rate adjustment for the upcoming rate year would be calculated by dividing the projected change in the pension contributions, grossed up for the operating ratio, by the estimated revenue from ratepayers for the current rate year. See the COLA and Other Annual Rate Adjustments exhibit for an example of the calculation.

## Balancing Account

If the Plan reaches $100 \%$ funding sooner than projected, as determined by the Plan asset manager in its quarterly reporting of the pension assets less the pension obligations, the pension contributions will be suspended unless the funding at any subsequent quarter-end falls below $98 \%$. For example, if the asset manager report for March 2025 - expected to be issued in April 2025 - indicates 100\% funding, contributions will stop as of May 2025. In this example, this difference between actual contributions and contributions included in the rates would be incorporated as part of the calculation of balancing account activity for RY 2025.

If funding falls below $98 \%$ at any subsequent quarter-end, Recology will contribute up to $\$ 2,000,000$ per month until the Plan reaches $100 \%$ funding once again. For example, if the asset manager report for June 2025 - expected to be issued in July 2025 indicates $98 \%$ or less funding, contributions of up to $\$ 2,000,000$ per month will be made in August, September, and October 2025. In this example, this difference between actual contributions and contributions included in the rates would be incorporated as part of the calculation of balancing account activity for RY 2025 and future years.

Any difference between actual Plan contributions and Plan contributions included in the rates will be accounted for as part of the adjustment to the notional balance of the balancing account, calculated at $100 \%$ of the above- or below-target profit.

Recology San Francisco


# Rate Change Request 

## Refuse Rates Board Hearing \#1

April 13, 2023


## Commitment to San Francisco



Provide excellent service at fair and

competitive rates and enhance the programs
that help keep San Francisco clean and
support the City's climate action goals.


## Agenda

1. Business Overview
2. Rate-Setting Methodology
3. Key Rate Components
4. Rate Change Proposal
5. Programs
6. Questions and Answers

## Business Overview

## Business Structure

- Collections provided by Recology Sunset Scavenger ("RSS") and Recology Golden Gate ("RGG")
- Disposal and processing provided by Recology San Francisco ("RSF")
- Recycle Central
- imRF
- Transfer Station
- Organics
- Public Reuse and Recycling Area
- Household Hazardous Waste

Number of Ratepayer Customers
Commercial, 16,000
Apartment, 8,400

## Revenues

## Consolidated SF Recology Companies Revenues



## Costs

## Consolidated SF Recology Companies Costs

RY 2022A, in millions


## Business Impacts

- Reduction in commercial activity
- San Francisco's ongoing commercial / economic recovery
- Lower tonnage collected
- Cost increases
- Pandemic-related increases in headcount
- Collective Bargaining Agreement and other labor cost increases
- Truck replacements



## Business Impacts

- Reduction in commercial activity and lower tons collected drives a rate increase


Fewer tons collected Lower revenue by RSS / RGG


Lower revenue Same fixed at RSF
 costs at RSF


Higher per-ton processing costs


Higher tipping fee needed

Results in higher RSS / RGG rates

## Rate Change Request

|  | RY 2024 | RY 2025 |
| :---: | :---: | :---: |
| Collection increase | $3.90 \%$ | $2.17 \%$ |
| Tipping fee increase | $16.36 \%$ | $0.08 \%$ |

RY2024 RATE @\$48.70
Impact of tipping fee increase on ratepayer:

- $\sim 30 \%$ of collection rates are for tipping fees


Rate-Setting Methodology

## Rate-Setting Methodology

- Cost plus allowed profit model
- Some operating expenses are not included in calculation of rates
- Profit allowed on subset of expenses ("OR eligible expenses")
- No profit allowed on certain expenses ("Non-OR eligible expenses")
- Collection of impound and ZWI funding ("Pass through collections")



## Rate-Setting Methodology

- Required revenue calculation:

- RSF tipping fee:
$\left.\begin{array}{|c|c|}\hline \begin{array}{c}\text { Required } \\ \text { Revenue for } \\ \text { Tipping Fee }\end{array} \\ \hline\end{array} \begin{array}{|cc|}\begin{array}{c}\text { Projected } \\ \text { Tipping Fee } \\ \text { Tonnage }\end{array} \\ \hline\end{array} \begin{array}{|c}\text { New } \\ \text { Tipping } \\ \text { Fee per } \\ \text { Ton }\end{array}\right]$
- RSS / RGG rates:
$\left.\left.\begin{array}{|c|c|}\hline \begin{array}{c}\text { Required } \\ \text { Revenue for } \\ \text { Collection }\end{array} \\ \hline\end{array} \begin{array}{|c|c|}\hline \text { Projected } \\ \text { Revenue @ } \\ \text { Current } \\ \text { Rates }\end{array}\right] \quad \begin{array}{|c}\text { \% Change } \\ \text { for } \\ \text { Collection } \\ \text { Rates }\end{array}\right]$


## Operating Ratio

- Standard mechanism in waste industry to calculate target profit
- $91 \%$ OR generates low profit levels by industry standards
- High OR = low profit
- Applied only to a portion of expenses ("OR-eligible expenses")
- Effective profit margin lower
- OR-eligible expenses are approximately $65 \%$ of RSS / RGG expenses and approximately $80 \%$ of RSF expenses
- Calculation example:
- OR-eligible expenses of $\$ 1,000.00$
- $\$ 1,000.00$ divided by $91 \%$ equals $\$ 1,098.90$
- $\$ 1,098.90$ less $\$ 1,000.00$ equals $\$ 98.90$ in profit


## Revenue Requirement

RY 2024 RSF Revenue Requirement
■ Increase ■ Decrease ■ Total


## Rate-Setting Methodology

## - RSF tipping fee

| Recology San Francisco | RY 2024 | RY 2025 |  |
| :---: | :---: | :---: | :---: |
| Operating Ratio Expenses | \$ 125,521,082 | \$ 125,781,488 | [a] |
| Operating Ratio Profit @ 91\% OR | \$ 12,414,173 | \$ 12,439,927 | $[\mathrm{b}]=[\mathrm{a}] / 0.91-[\mathrm{a}]$ |
| Non Operating Ratio Expense |  |  |  |
| Intercompany Processing and Disposal | 28,092,680 | 29,511,394 | [c] |
| Licenses \& Permits | 4,685,676 | 4,820,307 | [d] |
| Zero Waste Incentives @ 2\% OR on OR Expenses Other Revenue | 3,099,669 | 3,106,099 | [e] = [a] / $0.89-[\mathrm{a}]$ - [b] |
| Other Commercial Revenues | $(3,639,266)$ | $(3,649,443)$ | [f] |
| Recycling Revenues | $(17,842,450)$ | $(18,194,791)$ | [g] |
| Net Revenue Requirement before Offsets | \$ 152,331,564 | \$ 153,814,981 | [h] = sum [a] to [g] |
| Total Projected Revenue Tons (assumes 2\% growth) | 583,063 | 594,725 | [i] |
| Current Tipping Charge per Ton | \$ 219.86 | \$ 255.82 | [j] RY25 = RY24 adjusted tipping free |
| Proposed Tipping Charge per Ton before Offsets | \$ 261.26 | \$ 258.63 | [k] = [h] / [i] |
| Percent Increase before Offsets | 18.83\% | 1.10\% | $([k]-[j]) /[j]$ |
| Net Revenue Requirement Offsets RY 2023 ZWI Addback (4 Tiers) | 3,172,268 |  | [m] |
| RY 2024 ZWI Addback (2 Tiers) |  | 1,549,834 | [ n ] |
| Net Revenue Requirement After Offsets | \$ 149,159,296 | \$ 152,265,146 | $[\mathrm{o}]=[\mathrm{h}]+[\mathrm{m}]+[\mathrm{n}]$ |
| Adjusted Tipping Fee | \$ 255.82 | \$ 256.03 | $[p]=[0] /[i]$ |
| Adjusted Percent Increase | 16.36\% | 0.08\% |  |

## Revenue Requirement

## RY 2024 SSGG Revenue Requirement

■ Increase ■ Decrease ■ Total


## Rate-Setting Methodology

## - RSS / RGG rates

| Sunset Scavenger / Golden Gate | RY 2024 Adjusted |  | RY 2025 Adjusted |  | [a]$[\mathrm{b}]=[\mathrm{a}] / 0.91-[\mathrm{a}]$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Operating Ratio Expenses | \$ | 208,479,995 | \$ | 213,720,134 |  |
| Operating Ratio Profit @ 91\% OR |  | 20,618,901 |  | 21,137,156 |  |
| Non Operating Ratio Expense |  |  |  |  |  |
| Disposal Cost |  | 55,688,560 |  | 56,819,239 | [c] |
| Processing Cost |  | 67,225,568 |  | 68,571,494 | [d] |
| Impound Account |  | 23,847,771 |  | 23,847,771 | [e] |
| Licenses \& Permits |  | 2,439,330 |  | 2,495,900 | [f] |
| Zero Waste Incentives (2\% OR) |  | 5,148,290 |  | 5,277,692 | [g] = [a] / $0.89-[\mathrm{c}]$ - [b] |
| Other Revenue |  |  |  |  |  |
| Revenue not subject to rate increase |  | $(2,917,723)$ |  | (2,917,723) | [h] |
| Contamination Charges |  | $(5,000,000)$ |  | $(5,000,000)$ | [i] |
| Net Revenue Requirement before Offsets | \$ | 375,530,691 | \$ | 383,951,663 | [i] = sum [a] to [i] |
| Net Revenue Requirement Offsets |  |  |  |  |  |
| Rate Stabilization Fund |  | 4,250,000 |  | - | [k] |
| RY 2023 ZWI Addback (4 Tiers) |  | 5,313,635 |  |  | []] |
| RY 2024 ZWI Addback (2 Tiers) |  | - |  | 2,574,145 | [m] |
| Net Revenue Requirement After Offsets | \$ | 365,967,056 | \$ | 381,377,518 | $[\mathrm{n}]=[\mathrm{j}]$ - sum [k] to [m] |
| Revenue @ Current Rates [1] | \$ | 352,224,256 | \$ | 373,286,397 | [o] |
| Difference | \$ | 13,742,799 | \$ | 8,091,121 | $[\mathrm{p}]=[\mathrm{n}]$ - [0] |
| RY 2024 \& RY 2025 Net Increase |  | 3.90\% |  | 2.17\% | [q] $=[\mathrm{p}] /[\mathrm{o}]$ |

[^1]
## Annual Rate Adjustment

- Annual rate adjustment for RY 2026 and beyond
- COLA will continue to be applied except for years when Rate Board sets new rates
- Helps align rates with cost changes
- Factors to approximate most recent cost structure
- Weighting adjusted annually based on actual costs
- Additional components of the annual rate adjustment
- ZWI rebates to ratepayers
- Changes in projected pension contributions
- Balancing account adjustments


## Balancing Account

- Mechanism to adjust rates based on actual profits earned above or below target profit
- Balance increased for $100 \%$ of profits earned above target $\rightarrow$ Results in rate decrease in next following rate year
- Balance decreased for $100 \%$ of profits earned below target
$\rightarrow$ Results in rate increase in next following rate year


## Key Rate Components

## Growth Assumptions

- Recology used a blended $2 \%$ growth assumption for RY 2024 and RY 2025
- Commercial is $48 \%$ of total collections revenue
- Residential is $52 \%$ of total collections revenue
- City's 5 -year Plan growth assumptions from Table 7
- Business growth is $5.0 \%$ in RY 2024 and $4.1 \%$ in RY 2025
- Residential growth is $-0.4 \%$ in RY 2024 and flat in RY 2025

|  | City Data <br> Projected <br> Growth | City Business <br> Projected Growth <br> (Table 7) | City Residential <br> Projected <br> Growth | Recology <br> Projection |
| :--- | :---: | :---: | :---: | :---: |
| FY 2024 | $3.56 \%$ | $5.00 \%$ | $-0.40 \%$ | $2.00 \%$ |
| FY 2025 | $2.62 \%$ | $4.10 \%$ | $0.00 \%$ | $2.00 \%$ |

## Pension

- Pension cost largely consists of contributions to Recology Inc. defined benefit pension plan ("Plan")
- Rate application includes $\$ 23.5 \mathrm{M}$ for RY 2024 and $\$ 17.6 \mathrm{M}$ for RY 2025 for Plan contributions
- 100\% funding projected by June 2025 - no contributions in RY 2026 unless Plan funding falls below $98 \%$
- RY 2026 rates will be adjusted downward for reduction of pension costs
- Balancing account to capture changes in contributions, as needed, to maintain funding at $100 \%$


## Impound and ZWI Funding

- Recology funds accounts that are not part of OR-eligible costs
- Impound Funding
- Funds supporting SFE and Public Works
- $\$ 23.8 \mathrm{M}$ included in each of RY 2024 and RY 2025
- Does not reflect changes requested by SFE and Public Works
- ZWI Funding
- Calculated as $2.0 \%$ of projected OR
- \$8.2M in RY 2024 and $\$ 8.4 \mathrm{M}$ in RY 2025
- Managed by SFE

Rate Change Proposal

## Rate Structure

- Residential
- Per dwelling unit charge plus volume charges and other fees as applicable
- Diversion incentive built into residential rates
- Apartment
- Per dwelling unit charge plus volume charges and other fees as applicable
- Diversion discounts available
- Commercial
- Volume charges and other fees as applicable
- Diversion discounts available



## Rate Change Request

|  | RY 2024 | RY 2025 |
| :--- | :---: | :---: |
| Default residential monthly increase | $\$ 1.83$ | $\$ 1.07$ |
| Collection increase | $3.90 \%$ | $2.17 \%$ |
|  | $\$ 255.82$ | $\$ 256.03$ |
| Tipping fee | $\$ 35.96$ | $\$ 0.21$ |
| Tipping fee increase - \$ | $16.36 \%$ | $0.08 \%$ |
| Tipping fee increase - \% |  |  |

## Residential Rate Example

## Single Unit Residential Account

- Default service - 16 gal Trash / 64 gal Recycling / 32 gal Organics

|  | RY 2023 | RY 2024 | RY 2025 |
| :--- | :---: | :---: | :---: |
|  | (Current) | (3.90\% increase) | (2.17\% increase) |
| Monthly charge | $\$ 46.87$ | $\$ 48.70$ | $\$ 49.77$ |
| Monthly change |  | $\$ 1.83$ | $\$ 1.07$ |

## Residential Rate Example

## 4-Unit Multifamily Residential Account

- 96 gal Trash / 64 gal Recycling / 32 gal Organics

|  | RY 2023 | RY 2024 | RY 2025 |
| :--- | :---: | :---: | :---: |
|  | (Current) | (3.90\% increase) | (2.17\% increase) |
| Monthly charge | $\mathbf{\$ 1 3 6 . 1 7}$ | $\mathbf{\$ 1 4 1 . 4 9}$ | $\mathbf{\$ 1 4 4 . 5 6}$ |
| Per unit equivalent - <br> Monthly charge | $\$ 34.04$ | $\$ 35.37$ | $\$ 36.14$ |
| Monthly change |  | $\$ 5.32$ | $\$ 3.07$ |
| Per unit equivalent - <br> Monthly change | $\$ 1.33$ | $\$ 0.77$ |  |

## Apartment Rate Example

## 100-Unit Apartment Account

- collection once per week
- 43\% diversion discount

|  | RY 2023 | RY 2024 | RY 2025 |
| :--- | :---: | :---: | :---: |
|  | (Current) | (3.90\% increase) | (2.17\% increase) |
| Monthly charge | $\mathbf{\$ 4 , 3 9 3 . 2 2}$ | $\mathbf{\$ 4 , 5 6 4 . 5 6}$ | $\mathbf{\$ 4 , 6 6 3 . 6 0}$ |
| Per unit equivalent - <br> Monthly charge | $\$ 43.93$ | $\$ 45.65$ | $\$ 46.64$ |
| Monthly change |  | $\$ 171.34$ | $\$ 99.04$ |
| Per unit equivalent - <br> Monthly change | $\$ 1.71$ | $\$ 0.99$ |  |

## Commercial Rate Example

## Small Restaurant Commercial Account

- collection twice per week
- 35\% diversion discount

|  | RY 2023 | RY 2024 | RY 2025 |
| :--- | :---: | :---: | :---: |
|  | (Current) | (3.90\% increase) | (2.17\% increase) |
| Monthly charge | $\$ 372.82$ | $\$ 387.37$ | $\$ 395.77$ |
| Monthly change |  | $\$ 14.55$ | $\$ 8.40$ |

## Commercial Rate Example

Mid-size Hotel Commercial Account

- collection 4 days per week plus Saturday
- 50\% diversion discount

|  | RY 2023 | RY 2024 | RY 2025 |
| :--- | :---: | :---: | :---: |
|  | (Current) | (3.90\% increase) | (2.17\% increase) |
| Monthly charge | $\$ 5,861.74$ | $\mathbf{6 , 0 9 0 . 3 4}$ | $\$ 6,222.50$ |
| Monthly change |  | $\$ 228.60$ | $\$ 132.16$ |

## Programs Serving Ratepayers

## Programs Serving Ratepayers

## Keeping San Francisco clean and supporting the City's climate action goals

## Trash Collection (Grey bin)

1. Bulky Item Recycling (BIR)
2. Public Refuse Receptacle Collection
3. Abandoned Materials Collection
4. Disposal of Street Sweeping and Abandoned Waste
5. District Clean-up Events
6. Battery Recycling
7. Christmas Tree Recycling
8. Construction and Demolition Debris Recycling
9. Public Reuse and Recycling Area

## Recycling Collection (Blue bin) Organics Collection (Green bin)

10. Household Hazardous Waste Drop-off
11. Door to Door Household Hazardous Waste Collection
12. Household Hazardous Waste Retail Take-back Program
13. Very Small Quantity Generator Program
14. E-waste Recycling
15. Safe Needle Program
16. Perfectly-good Reuse Program
17. Mattress Recycling
18. Toilet Recycling
19. Tire Recycling
20. Styrofoam Drop-off
21. Film Plastic Drop-off
22. Litter Collection from Community Benefit Districts
23. Event Recycling
24. Artist in Residence
25. Educational Tour Program
26. Compost Giveaway

## Abandoned Materials

## Current Service Levels

Collecting abandoned material (furniture, mattresses, etc.) in the public right of way

- 13 driver headcount for 5 zones, each with dedicated routes, plus 2 sweep routes covering San Francisco
- Target response time within 4 hours
- Estimated direct program cost $=\$ 5.4 \mathrm{M}$ per year


## Current Service Analysis

- Existing zones are experiencing service requests at $117 \%$ of estimated service capacity
- Service requests increased 2.89\% from CY 2021 to CY 2022
- Response time eroded 33\% from CY 2021 to CY 2022


## Abandoned Materials

## Abandoned Waste

Zones


## Abandoned Materials

## Enhancement: One Additional Abandoned Materials Zone

 Goal- Existing 5 zones to be split across 6 zones, each with a dedicated route
- To respond to ongoing increases in service requests above current service capacity and provide proactive service capability to all zones covering San Francisco
- With the additional service capability, all zones will be able to more quickly respond to 311 service requests and will be able to proactively drive streets within their zones to collect abandoned material before a 311 call is received

Rate Requirements

- 2 additional driver FTE $=\$ 476 \mathrm{~K}$ per year
- 2 additional collection vehicles $=\$ 493 \mathrm{~K}$ truck acquisition cost


## Public Receptacles

## Current Service Levels

Dedicated public receptacle routes for additional service of high use cans

- 10 driver FTE and 10 route trucks
- Routes are scheduled to begin service after standard collection routes
- Estimated direct program cost $=\$ 4.1 \mathrm{M}$ per year


## Current Service Analysis

- Commercial corridors outside of the downtown area are requiring additional service of public receptacles
- 7 out of 10311 calls come in during the afternoon hours
- Installation of sensors is projected to increase the frequency of service requests and need for dynamic routes, which requires additional capacity
- 311 calls for overflow requests for CY 2023 are on pace to increase by $137 \%$ over CY 2022


## Public Receptacles



## Public Receptacles

## Enhancement: Two Additional Dedicated Public Receptacle Routes Goal

- To provide the additional resources needed to meet increased public receptacle service requests and future scheduling flexibility for sensor deployment
- Additional dedicated public receptacle routes will add capacity for approximately 150,000 additional stops annually

Rate Requirements

- 2 additional driver FTE $=\$ 476 \mathrm{~K}$ per year
- 2 additional collection vehicles $=\$ 410 \mathrm{~K}$ truck acquisition cost


## Weekend Clean-up Events

## Enhancement: 22 Weekend Clean-up Events Across San Francisco Goal

- To restart the weekend clean-up events to provide additional opportunities for residents to dispose of bulky, miscellaneous, and other items


## Background

- These events support proper disposal and reduce material left in the public right of way
- In addition to the two Bulky Item Recycling pickups each resident and apartment unit receives per calendar year


## Rate Requirements

- Estimated direct program costs for 22 events $=\$ 559 \mathrm{~K}$ per year


## Waste Zero Outreach

## Ongoing Education and Outreach Programs

- Conduct site visits, presentations, and service recommendations to maximize diversion.
- Provide kitchen compost pail to residents and tenants upon request
- Mail welcome letters with information on proper sorting to all newly started customers
- Provide assistance to 1,250 commercial and 600 apartment customers per year through phone calls, email, letters, direct trainings, and support
- Contact customers with frequent contamination to offer training, signage, and ensure service levels match waste stream
- Conduct audits of large refuse generators and provide results to SFE, per Refuse Separation Ordinance
- Events and educational support
- Tours
- Presentations and trainings


## Current Waste Zero and Diversion Auditor Team is 11 FTE

## Waste Zero Outreach Enhancements

## Education and Outreach Programs

Goal: Prevent contamination at the source

- Distribute Recology service guides to all residential and apartment customers every other year
- Provide Recology service guides for commercial customers detailing what goes where, how to avoid/remove contamination charges, and additional services such as locking and indoor services to discourage illegal dumping
- Targeted Outreach - Contact all new apartment and commercial accounts above 2 yards of service, with low diversion (less than 50\%)


## Rate Requirements

- Cost projected is $\$ 393 \mathrm{~K}$ per year
- Production and distribution of service guides for approximately 320 K customers
- 1 additional FTE to conduct focused outreach to low diversion customers
- Automated email distribution of newsletter


## Contamination Outreach

## Residual Reduction and Quality Compost

Goal: Reduce contamination to improve diversion and product quality

## Starting with outreach and education

- Onsite trainings, posters and signage plus one-on-one site visits
- Information about importance of sorting correctly and potential for contamination charges
At point of collection
- On-board technology - identify contamination at source
- Targeted outreach and education

Rate Requirements


Point of collection: Photo of recycling truck
hopper, from on-board camera pilot program

- 1 FTE = \$225K per year, to evaluate photos, conduct trainings, manage customer account data, contamination warnings, and process
- Onboard technology and cameras for 38 units $=\$ 243 \mathrm{~K}$ acquisition cost


## Contamination Fees

## Contamination Charge Process

Goal: Hold contaminators accountable with a clearly defined process

## Apartment and Commercial Process

1. First instance: Tag cart and send letter to customer
2. Second instance: Tag cart, send letter to customer, and charge to dump contaminated bin as extra trash
3. Third instance: Send letter to customer, add $50 \%$ contamination fee to monthly bill
4. Ongoing contamination: Monthly contamination fees added to account and escalated over time from $50 \%$ up to $100 \%$ and removal of diversion discount
$\checkmark$ A clean inspection will result in removal of all contamination charges

## Residential Process

- Tag cart and charge to dump contaminated bin as extra trash


## Projected additional contamination fees:



- $\$ 5$ million additional revenue per year


## Safe Service

## Interference with Safe Service

- Recology and Union collaborating with City departments
- Implemented changes to address frequency and severity of incidents
- Established two-person routes where needed
- Increased supervision to improve presence and response times
- Increased training


## Rate Requirements

- 3 additional driver FTE $=\$ 714 \mathrm{~K}$ per year
- 1 additional supervisor $\mathrm{FTE}=\$ 146 \mathrm{~K}$ per year


## RSS / RGG Headcount



## RSS / RGG Changes to FTE RY 2023 vs. RY 2022

| Category | Job Type | FTE | Open Headcount or <br> New Hire | Operational Requirement |
| :--- | :--- | :---: | :--- | :--- | :--- |
| Non-Union Exempt | Rate Analyst | 2 | New hire | Prepares and analyze rate schedules and models. Ensures the rate structure is applied appropriately <br> across the organization and quarterly rate reporting adheres to regulations. |
| Non-Union Exempt | Finance Manager | 1 | Open headcount | Oversees the rate reporting requirements and ensures compliance with regulations. |
| Non-Union Exempt | Assistant Controller | 1 | Open headcount | Supports the Regional Controller in managing financial reporting, month-end close, and development of <br> policies, while overseeing the day-to-day operations of the accounting department. |
| Non-Union Exempt | Senior Human <br> Resource Generalist | 1 | New hire | Supports the Human Resources department with additional regulatory responsibilities associated with <br> PHELO and Proposition G. |
| Non-Union Exempt | GIS Supervisor |  |  |  |

## RSS / RGG Changes to FTE RY 2024 vs. RY 2023

| Category | Job Type | FTE | Open Headcount <br> or New Hire | Operational Requirement |
| :--- | :--- | :---: | :--- | :--- | :--- |
| Non-Union Exempt | Operations Supervisor | 2 | New hire | Supports safe service operations, Special Event coordination, and public receptacle supervision. |
| Non-Union Exempt | Waste Zero Specialist | 2 | New hire | Supports additional outreach to commercial customers generating two or more yards per week, with less than $50 \%$ <br> diversion rates. |
| Union Driver/Helper | Driver | 9 | New hire | Two public receptacle drivers for increased service demands, two abandoned materials drivers for increased service <br> demands, three drivers for the safe service routing changes, two drivers for cardboard collection in high demand areas. |
|  | Total |  |  |  |

Note: FTE is projected to remain constant from RY 2024 to RY 2025.

## Organics Pre-Processing

## Organics Contamination

Subtotals by Recoverability


- Currently, 24\% of total organics tonnage collected by SF Recology Companies is non-compostable or has limited compostability
- Stanislaus County has notified Recology it has until December 2023 to clean up organics feedstock from San Francisco
- Recology working with SFE on steps towards removing plastics, including biobags, from the organics feedstock


## Organics Pre-Processing

## Contamination Concerns \& Objectives

- At current contamination levels, we are in jeopardy of losing the ability to deliver San Francisco organics to the current organics processing facility
- SB 1383 has created a market capacity issue and currently unclear if alternative markets can accept our tonnage
- Regulatory and industry standards consider bioplastics to be contamination that must be removed from the organics stream; SFE has indicated that bioplastics are key to the success of organics participation
- Current standards for certifying compostable plastics do not align with actual facility conditions, including processing times
- The organics processing facility cannot state that these materials can be "processed and recovered"
- Proposing to install and operate a pre-processing system to remove contaminants from the organics feedstock prior to delivering to the organics processing facility


## Organics Pre-Processing

## Organics Pre-Processing System

- Removing contaminants from organics feedstock creates challenges with yield loss and product quality


## System Cost Estimate

| Bag Breaker/Opener | 725,000 |
| :--- | ---: |
| Separation Screen | 405,000 |
| Installation and Conveyors | 898,000 |
| Electrical Service and Connections | 503,000 |
| PG\&E Transformer Upgrades | $\mathbf{7 5 0 , 0 0 0}$ |
|  | $\$ 3,281,000$ |

- $\$ 2.5 \mathrm{M}$ is included in leases over 10 years, and the rest will be depreciated over 10 years resulting in incremental costs per year of approximately $\$ 205 \mathrm{~K}$ in RY 2025 and $\$ 410 \mathrm{~K}$ per year in future rate years


## Organics Pre-Processing

## Organics Pre-Processing Conceptual Design



## Trash Processing Pilot

## Large Scale Trash Processing Test

- SFE requested that Recology deliver 1,200 tons of unsorted municipal solid waste (MSW) to Davis Street Organics Materials Recovery Facility (OMRF)
- SFE estimated a 46\% recovery rate for the MSW that is run through the OMRF based on reports presented to Oakland by the facility operators in 2022


## Trash Processing Pilot

## Test Objectives

- Intent is to determine feasibility of processing trash for San Francisco to recover organic and recyclable materials that can then be composted and recycled
- MSW will be processed at OMRF
- Urbaser Environment will perform a detailed analysis of the recovered organic fraction, recyclable commodities, and non-recyclables
- Organic material recovered from the trash processing test will then be composted at the adjoining Organics Material Composting Facility (OMCF)


## Trash Processing Pilot

## Incremental cost of MSW processing test

- $\$ 479,970$ or $\$ 400$ per ton

|  | Hay Rd |  | Davis St. OMRF |  | Difference |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Truck \& Labor Cost per Hour | \$ | 193.00 | \$ | 193.00 |  |  |
| Number of Loads |  | 47.06 |  | 54.55 |  |  |
| Time per load |  | 5.00 |  | 2.50 |  |  |
| Total Freight | \$ | 45,412 | \$ | 26,318 |  |  |
| Tipping Fee | \$ | 37.80 | \$ | 452.10 |  |  |
| Tons |  | 1,200 |  | 1,200 |  |  |
| Total Disposal/Processing Cost | \$ | 45,360 | \$ | 542,521 |  |  |
| Total Cost | \$ | 90,772 | \$ | 570,741 | \$ | 479,970 |

## Pier 94 Sustainable Crushing

- Sustainable Crushing operation at Pier 94 closed in 2021; site will be cleared by August 2023
- No Sustainable Crushing costs included for RY 2024 and beyond
- RY 2023 costs:
- \$3M freight to clear site
- \$90K / month lease
- In RY 2023, 2 FTE for scalehouse weighmaster and equipment operator
- By RY 2024, 2 FTE will backfill existing vacancies and offset overtime in RSF


## RSF Headcount



## RSF Changes to FTE RY 2023 vs. RY 2022

| Category | Job Type | FTE | Open Headcount or New Hire | Operational Requirement |
| :---: | :---: | :---: | :---: | :---: |
| Non-Union Exempt | Human Resources Manager | 1 | Open headcount | Supports the RSF employee population. |
| Non-Union Exempt | Environmental Specialist | 1 | Open headcount | Supports Regional Compliance Manager with Environmental and Operational Permit Compliance. |
| Non-Union Exempt | Operations Manager Transportation | 1 | New hire | Manages RSF Transportation Department. Currently this business unit is overseen indirectly by the Senior Operations Manager. |
| Non-Union Exempt | Operations Supervisor Transportation | 1 | New hire | Reports to the Operations Manager to have appropriate structure and coverage. |
| Non-Union Exempt | Operations Supervisor Shop | 1 | New hire | Covers the swing shift and provides shift coverage for the graveyard shift. |
| Non-Union NonExempt | Artist in Residence/Environmental Program Specialist | 1 | Open headcount | Primarily supports the Educational Tour programming and Artist in Residence Program at a minor level as needed. Leads onsite student and adult tours and offsite school presentations. Develops and implements curriculum, workshops, and educational materials. |
| Non-Union NonExempt | EIR Coordinator | 1 | Open headcount | Coordinates environmental studies and deliverables between the San Francisco and Brisbane Planning Departments, environmental consultants, land use attorneys, and Recology management. |
| Union - Shop/Facility | Lube Tech | 1 | New hire | Performs maintenance on the iMRF C\&D processing line. |
|  | Total | 8 |  |  |

Note: FTE is projected to remain constant from RY 2023 to RY 2025.

## Residential Rate Market Comparison

Even after proposed increases, residential rates are below nearby comparable cities

|  | Current monthly <br> residential rate | RY 2024 proposed <br> residential rate | RY 2025 proposed <br> residential rate |
| :--- | :---: | :---: | :---: |
| San Jose | $\$ 55.24$ |  |  |
| Oakland | $\$ 54.69$ |  |  |
| San Francisco | $\mathbf{\$ 4 6 . 8 7}$ | $\mathbf{\$ 4 8 . 7 0}$ | $\mathbf{\$ 4 9 . 7 7}$ |

Q\&A

## Appendix

## Residential Rate Example Detail

## Single Unit Residential Account

|  |  | RY 2023 | RY 2024 | RY 2025 |
| :--- | :---: | :---: | :---: | :---: |
| Services | Units | Charge <br> (Current) | Charge <br> (3.90\% increase) | Charge <br> (2.17\% increase) |
| Dwelling Unit | 1 | $\$ 17.55$ | $\$ 18.23$ | $\$ 18.63$ |
| Trash (grey) 16 Gal | 1 | $\$ 7.33$ | $\$ 7.62$ | $\$ 7.79$ |
| Recycling (blue) 64 Gal | 1 | $\$ 14.66$ | $\$ 15.23$ | $\$ 15.56$ |
| Organics (green) 32 Gal | 1 | $\$ 7.33$ | $\$ 7.62$ | $\$ 7.79$ |
| Monthly charge |  | $\mathbf{\$ 4 6 . 8 7}$ | $\mathbf{\$ 4 8 . 7 0}$ | $\mathbf{\$ 4 9 . 7 7}$ |
| Monthly change |  |  | $\mathbf{\$ 1 . 8 3}$ | $\mathbf{\$ 1 . 0 7}$ |

## Residential Rate Example Detail

## 4-Unit Multifamily Residential Account

|  |  | RY 2023 | RY 2024 | RY 2025 |
| :--- | :---: | :---: | :---: | :---: |
| Services | Units | Charge <br> (Current) | Charge <br> (3.90\% increase) | Charge <br> (2.17\% increase) |
| Dwelling Unit | 4 | $\$ 70.20$ | $\$ 72.94$ | $\$ 74.52$ |
| Trash (grey) 96 Gal | 1 | $\$ 43.98$ | $\$ 45.70$ | $\$ 46.69$ |
| Recycling (blue) 64 Gal | 1 | $\$ 14.66$ | $\$ 15.23$ | $\$ 15.56$ |
| Organics (green) 32 Gal | 1 | $\$ 7.33$ | $\$ 7.62$ | $\$ 7.79$ |
| Monthly charge |  | $\mathbf{\$ 1 3 6 . 1 7}$ | $\mathbf{\$ 1 4 1 . 4 9}$ | $\mathbf{\$ 1 4 4 . 5 6}$ |
| Monthly change |  |  | $\mathbf{\$ 5 . 3 2}$ | $\mathbf{\$ 3 . 0 7}$ |

## Apartment Rate Example Detail

## 100-Unit Apartment Account - collection once per week

|  |  | RY 2023 | RY 2024 | RY 2025 |
| :--- | :---: | ---: | ---: | ---: |
| Services | Units | Charge <br> (Current) | Charge <br> (3.90\% increase) | Charge <br> (2.17\% increase) |
| Dwelling Unit | 100 | $\$ 583.00$ | $\$ 605.74$ | $\$ 618.88$ |
| Trash (grey) 2 YD | 6 | $\$ 2,129.04$ | $\$ 2,212.07$ | $\$ 2,260.07$ |
| Recycling (blue) 2 YD | 12 | $\$ 4,258.08$ | $\$ 4,424.15$ | $\$ 4,520.15$ |
| Organics (green) 64 Gal | 6 | $\$ 337.44$ | $\$ 350.60$ | $\$ 358.21$ |
| Diversion Discount |  | $\$(2,914.34)$ | $\$(3,028.00)$ | $\$(3,093.74)$ |
| Monthly charge |  | $\$ 4,393.22$ | $\$ 4,564.56$ | $\$ 4,663.60$ |
| Monthly change |  |  | $\mathbf{\$ 1 7 1 . 3 4}$ | $\mathbf{\$ 9 9 . 0 4}$ |

## Commercial Rate Example Detail

## Small Restaurant Commercial Account - collection twice per week

|  |  | RY 2023 | RY 2024 | RY 2025 |
| :--- | ---: | ---: | ---: | ---: |
| Services | Units | Charge <br> (Current) | Charge <br> (3.90\% increase) | Charge <br> (2.17\% increase) |
| Trash (grey) 64 Gal | 1 | $\$ 210.42$ | $\$ 218.63$ | $\$ 223.37$ |
| Recycling (blue) 64 Gal | 1 | $\$ 210.42$ | $\$ 218.63$ | $\$ 223.37$ |
| Organics (green) 32 Gal | 1 | $\$ 105.20$ | $\$ 109.30$ | $\$ 111.67$ |
| Bin Access Charge |  | $\$ 30.90$ | $\$ 32.11$ | $\$ 32.81$ |
| Diversion Discount | $35 \%$ | $\$(184.12)$ | $\$(191.30)$ | $\$(195.45)$ |
| Monthly charge |  | $\$ 372.82$ | $\$ 387.37$ | $\$ 395.77$ |
| Monthly change |  |  | $\mathbf{\$ 1 4 . 5 5}$ | $\mathbf{\$ 8 . 4 0}$ |

## Commercial Rate Example Detail

## Mid-size Hotel Commercial Account

|  |  | RY 2023 | RY 2024 | RY 2025 |
| :--- | ---: | ---: | ---: | ---: |
| Services | Days | Charge <br> (Current) | Charge <br> (3.90\% increase) | Charge <br> (2.17\% increase) |
| Trash (grey) 2 YD $\times 1$ | $4+$ SAT | $\$ 2,930.87$ | $\$ 3,045.17$ | $\$ 3,111.25$ |
| Recycling (blue) 2 YD $\times 2$ | $4+$ SAT | $\$ 5,861.74$ | $\$ 6,090.35$ | $\$ 6,222.51$ |
| Organics (green) 2 YD x1 | $4+$ SAT | $\$ 2,930.87$ | $\$ 3,045.17$ | $\$ 3,111.25$ |
| Diversion Discount | $50 \%$ | $\$(5,861.74)$ | $\$(6,090.35)$ | $\$(6,222.51)$ |
| Monthly charge |  | $\mathbf{\$ 5 , 8 6 1 . 7 4}$ | $\mathbf{\$ 6 , 0 9 0 . 3 4}$ | $\mathbf{\$ 6 , 2 2 2 . 5 0}$ |
| Monthly change |  |  | $\mathbf{\$ 2 2 8 . 6 0}$ | $\mathbf{\$ 1 3 2 . 1 6}$ |

## Thank you




[^0]:    ${ }^{1}$ Revenue from ratepayers for RSS/RGG is the revenue from billings to residential, apartment, commercial, and regulated debris box customers and excludes billings to contract customers and non-regulated debris box customers. Revenue from ratepayers for RSF is the revenue from all customers who pay the tipping fee and is not limited to revenue from billing RSS/RGG.

[^1]:    [1] RY 2025 Revenue @ Current Rates = Net Revenue Requirement After Offsets for RY 2024 plus 2\% growth

