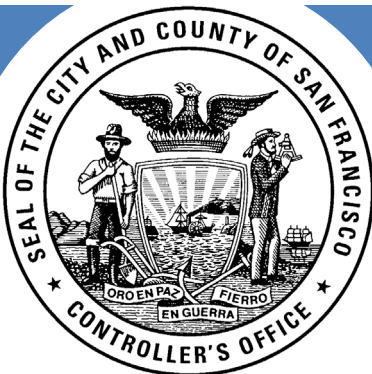


Refuse Rate Administrator's Hearing



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller, Office of the Refuse
Rates Administrator

May 9, 2023

- Recology Rate Proposal
- Outreach
- Program Enhancements-Abandoned Materials and Public Receptacles
- Program Enhancements-All other Program Enhancements
- Other Labor Enhancements and Vacancies
- Pension Costs
- Zero Waste Incentive Account
- Future Work
- Public Comment

Recology Rate Proposal

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As of 5/8/23	Requests	Responses
Schedule Requests	17	11
Exhibits	37	13
Questions	156	96

- Items need to be completed in order to validate rate model and to allow Refuse Rate Administrator to understand details in order to develop rate order recommendations.

Recology Rate Proposal

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- Recology is proposing a 3.9% and 2.05% increase for Rate Years 2024 and 2025 respectively.
 - These increases assume cost-of-business adjustments, program enhancements, new organics pre-processing, other labor enhancements or backfills, and new revenue from contamination fees.
- Recology's proposal assumes a 91% Operating Ratio
- In addition, Recology is proposing a balancing account that would fully guarantee the Operating Ratio/Profit Margin on eligible costs.
- Preliminary analyses:
 - Baseline Rate Change
 - Comparable Jurisdictions
 - Profit Margin Analysis
 - Balancing Account Proposal
- Additional analyses to be performed:
 - Status Quo Programs
 - Disposal costs/Landfill Audit
 - Cost of Business Increases
 - Efficiency Analyses

Recology Rate Proposal

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Single Unit Residential Account	Min Size (Gal)	RY2023 Rates	Recology RY2024 Proposed	RY2024 Baseline	RY2024 Baseline (excl ZWIA)
Per Unit Charge	N/A	\$17.55	\$18.23	\$18.11	\$17.70
Trash	16	\$7.33	\$7.62	\$7.56	\$7.39
Recycling	64	\$14.66	\$15.23	\$15.12	\$14.78
Organics	32	\$7.33	\$7.62	\$7.56	\$7.39
Monthly Charge		\$46.87	\$48.70	\$48.36	\$47.26
\$ Change from Current			\$1.83	\$1.49	\$0.39
% Change from Current			3.90%	3.17%	0.83%

- These proposals assume a 91% Operating Ratio.
- “RY2024 Baseline” estimates rates without the \$3.3 million in costs for program enhancements, \$4.3 million in unfilled labor enhancements and backfills, and \$5 million in revenues for new contamination fees.
- “RY2024 Baseline (excl ZWIA)” estimates the impact of removing the \$8.2 million cost of the Zero Waste Incentive Account.

Recology Rate Proposal

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Single Unit Residential Account	Min Size (Gal)	Recology RY2024 Proposed	RY2024 Baseline	Recology RY2025 Proposed*	RY2025 Baseline	RY2025 Baseline (excl ZWIA)
Per Unit Charge	N/A	\$18.23	\$18.02	\$18.63	\$18.19	\$17.91
Trash	16	\$7.62	\$7.53	\$7.78	\$7.60	\$7.48
Recycling	64	\$15.23	\$15.05	\$15.57	\$15.19	\$14.96
Organics	32	\$7.62	\$7.53	\$7.78	\$7.60	\$7.48
Monthly Charge		\$48.70	\$48.13	\$49.76	\$48.57	\$47.83
\$ Change from RY2024 Baseline				\$1.07	\$0.45	-\$0.30
% Change from RY2024 Baseline				2.19%	0.93%	-0.63%

- These proposals assume a 91% Operating Ratio.
- “RY2025 Baseline” estimates rates without the \$3.5 million in costs for program enhancements, \$4.4 million in unfilled labor enhancements and backfills, and \$5 million in revenues for new contamination fees.
- “RY2025 Baseline (excl ZWIA)” estimates the impact of removing the \$8.4 million cost of the Zero Waste Incentive Account as well as the \$2.6 million Addback for 2 tiers achieved.

Comparable Jurisdictions

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Residential Rate Comparison

Comparable Jurisdictions Weekly Residential Service	Service Square Miles	Residential Population	Minimum Monthly Cost of Residential Trash, Recycling, and Compost Collection (Combined)	Total Combined Volume of Minimum Monthly Residential Trash, Recycling, and Compost Collection (Gallons)	Combined Monthly Residential Cost Per Gallon
Jurisdiction					
San Francisco	49	850,000	\$ 46.87	80	\$ 0.59
San Mateo City	363	102,200	\$ 23.59	180	\$ 0.13
Alameda City	12	78,280	\$ 37.50	212	\$ 0.18
Sacramento	99	525,000	\$ 31.93	165	\$ 0.19
Fresno	116	545,000	\$ 31.43	192	\$ 0.16
Los Angeles	502	3,849,000	\$ 36.32	240	\$ 0.15
San Diego	326	1,381,600	\$ -	288	\$ -
San Jose	178	983,500	\$ 49.43	128	\$ 0.39
Long Beach	51	456,000	\$ 34.42	164	\$ 0.21
Santa Ana	27	309,400	\$ 22.94	288	\$ 0.08
Anaheim	50	345,940	\$ 26.46	288	\$ 0.09
Oakland	56	433,820	\$ 48.19	60	\$ 0.80
Burbank	17	105,400	\$ 55.03	192	\$ 0.29
Santa Cruz County	445	260,500	\$ 24.62	148	\$ 0.17
East Palo Alto	3	28,250	\$ 52.90	180	\$ 0.29
Castro Valley	17	66,400	\$ 32.49	60	\$ 0.54
Average	144	645,018	\$ 34.78	187	\$ 0.28

Comparable Jurisdictions

Commercial Rate Comparison

Comparable Jurisdictions Weekly Commercial Service	Minimum Monthly Cost of Commercial 3 cart once a week pick up	Volume Minimum Monthly Commercial Collection (Gallons)	Monthly Commercial Trash Collection Cost Per Gallons	Minimum Monthly 3 cart 3x a week pick up	Monthly 1 CY Bin once a week pick up Trash Service	Monthly Commercial Trash Collection Cost Per Gallons
Jurisdiction						
San Francisco	\$ 52.60	32	\$ 1.64	\$ 157.81	\$ 282.63	\$ 1.41
San Mateo City	\$ 62.67	32	\$ 1.96	\$ 168.09	\$ 170.18	\$ 0.85
Alameda City	\$ 32.33	20	\$ 1.62	\$ 96.99	\$ 180.29	\$ 0.90
Sacramento	\$ 145.16	64	\$ 2.27	\$ 286.74	\$ 140.15	\$ 0.70
Fresno	\$ 31.43	64	\$ 0.49	\$ 75.90	\$ 39.59	\$ 0.20
Los Angeles	\$ 217.85	96	\$ 2.27	\$ 309.09	\$ 252.66	\$ 1.26
San Diego	\$ -			\$ -	\$ -	\$ -
San Jose	\$ 49.43	32	\$ 1.54		\$ 146.55	\$ 0.73
Santa Ana	\$ 175.00	35	\$ 5.00		\$ 113.54	\$ 0.56
Anaheim	\$ 63.83	96	\$ 0.66	\$ -	\$ 168.33	\$ 0.84
Oakland	\$ 67.13	20	\$ 3.36	\$ 201.46	\$ 266.31	\$ 1.32
Burbank	\$ 39.06	32	\$ 1.22	\$ -	\$ 154.70	\$ 0.77
Santa Cruz County	\$ 67.89	64	\$ 1.06	\$ 420.93	\$ 249.81	\$ 1.24
Castro Valley	\$ 60.23	20	\$ 3.01	\$ 92.29	\$ 214.15	\$ 1.07
Average	\$ 81.89		\$ 2.01	\$ 150.78	\$ 187.94	\$ 0.94

Recology Profit Margin Request

- Recology Requests a 9.89% Profit Margin (91% Operating Ratio)
- ESOP Presents additional Tax Savings ~2-4%
- RMA Benchmark of Solid Waste Collection Companies with \$25M+ per year Revenue show average Profit Margin of 6.9%
- Current 50% Balancing Account lowers risk further
- Average Profit Margin Excluding Oakland and Cities under same Contract = 13.21%

Jurisdiction	Contractor	Profitability Ratio 2021
San Luis Obispo City	San Luis Garbage Company	7.53%
Sunnyvale	Specialty	8.40%
Arroyo Grande	South County Sanitary Service	8.70%
Atascadero	U.S.A Waste of California	8.70%
Grover Beach	South County Sanitary Service	8.70%
Morro Bay	Morro Bay Garbage Services, Inc.	8.70%
Pismo Beach	South County Sanitary Service	8.70%
San Luis Obispo County	South County Sanitary Service	8.70%
Stanislaus County Area #3	Multiple	10.01%
Marin County	Marin Sanitary Service	10.50%
San Rafael	Marin Sanitary Service	10.50%
San Anselmo	Marin Sanitary Service	10.50%
SBWMA	Recology	10.50%
Newark	Republic	10.72%
Pleasanton	Pleasanton Garbage Service	11.11%
Livermore	Livermore Sanitation	11.11%
Pacifica	Recology	11.11%
Alameda	ACI	11.11%
Marina	GreenWaste Recovery	11.98%
Seaside	GreenWaste Recovery	11.98%
Castro Valley	ACI	12.36%
San Ramon	ACI	12.36%
Stockton (WM)	Waste Management	14.80%
Central Contra Costa SWA	Republic	14.94%
Milpitas	Garden City Sanitation	14.94%
Daly City	Republic	15.26%
Union City	Republic	16.12%
Carmel	GreenWaste Recovery	16.60%
San Jose (Commercial)	Republic	17.25%
Stockton (REP)	Republic	17.65%
West Valley SWMA	Waste Connections	18.06%
Santa Cruz County	GreenWaste Recovery	19.23%
Cupertino	Recology	18.97%
Carlsbad	Republic	21.10%
Oakland (CWS)	CWS	35.85%

Rate Year 2023 Balancing Account

- Purpose of the balancing account is to promote stabilization of rates.
- Under the December 2022 Settlement Agreement, a \$25 million balancing account was created.
- The amount of remaining notional balance will be determined by how much Recology is above or below the target profit. Recology will increase or decrease the notional balance based on profits earned or losses incurred in RY23 using at 0.91% OR on eligible costs and applying a 50% adjustment.
- This amount will be adjusted quarterly, with a true-up at the end of each subsequent quarter. Any remaining balance after the true-up for RY23 will be applied to offset rate increases in equal amounts between RY25-RY29.

- The Balancing Account only applies to Rate Year 2023, and Recology is proposing the inclusion of a balancing account for Rate Years 2024 and 2025.
- Under the proposal, rather than a 50% adjustment, Recology is proposing a 100% adjustment. The Refuse Rate Administrator's initial proposal is to continue the settlement agreement terms and maintain the 50% adjustments.

Recology's justification for a 100% adjustment:

- Recology still has incentive to control costs because it's in its best interest to maintain business and expand.
- Recology is still delivering service at rates below Oakland and San Jose
- Profit margin only applies to a portion of overall costs and does not guarantee a specific amount of profit.
- As a public process that renews, Recology does face risk in that the terms are subject to change from rate-cycle to rate-cycle.
- Recology needs to generate adequate profits to attract capital to make investments.
- The 100% adjustment keeps the companies' earnings in any period consistent with the target operating ratio.

Balancing Account Proposals

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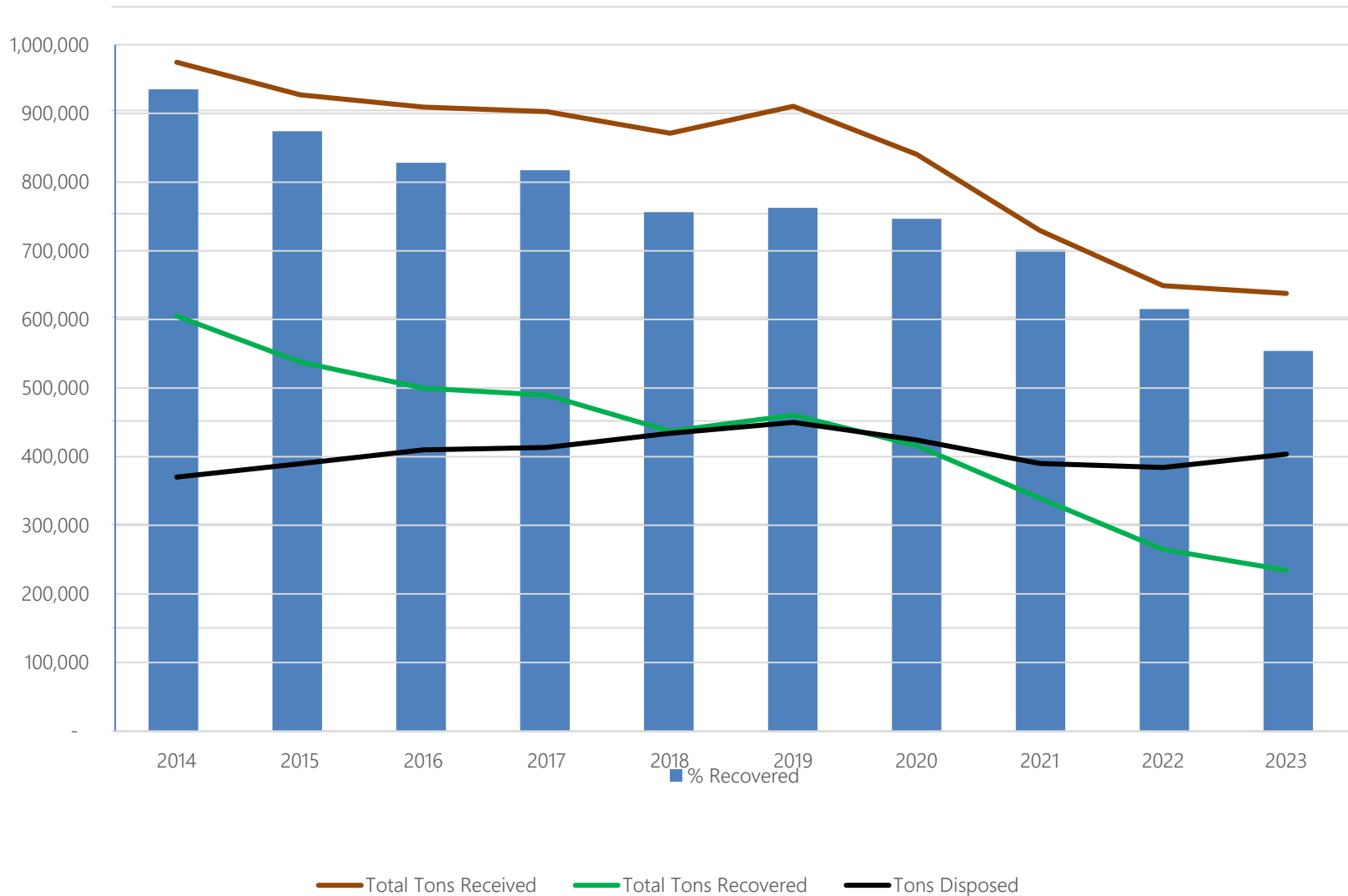
- The structure of a balancing account can help mitigate unintended consequences, but can also create new moral hazards.
- Recology currently owns all waste collection permits in San Francisco, giving them an effective monopoly. Combined with a balancing account with a 100% adjustment, Recology would have little incentive to control costs.
- In addition, a 100% adjustments guarantees a 9.89% profit margin (91% OR). In comparison, the current risk-free rate of return on a 10 year treasury is 3.37%

Outreach

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Entity	Full-Time Employees (FTEs)	Estimated Costs	Details
Recology	11 existing + 3 proposed	Estimated existing outreach cost (\$1,375,000) + estimated \$1M proposed	Current team provides site visits, presentations, and service recommendations, events, education and tours. 1 new proposed FTE would conduct focused outreach to low diversion customers, 1 additional Waste Zero Specialist, and 1 additional new FTE would evaluate contamination photos, conduct trainings, manage customer account data, and issue contamination warnings.
Public Works	26 existing (10 ONE Team & 16 Litter Patrol) + 0 proposed	FY24 \$6,720,284 (\$2,768,524 for ONE Team, \$3,951,760 for Litter Patrol)	ONE Team educate the public on acceptable waste disposal methods and related code compliance and work with Litter Patrol.
SF Environment	23.89 existing (including 9 temp training) + 0 proposed	FY24 \$2,873,297 for salaries and benefits (\$5,808,847 if including overhead, grants, materials)	SFE Outreach team focuses on upstream producers.
Total	61 existing + 3 proposed	\$11.0M-\$13.9M +\$1M proposed	FY24 Outreach efforts could equal 3%-4% of total refuse program costs. (Up to \$2/month on average residential bill)

Tons Received vs. Recovered vs. Disposed



Program Enhancements

Program Enhancement	Rate Year 2024			Rate Year 2025		
	Enhancement	Total Expenditure Rate Board Hearing	Total Expenditures RRA Hearing	Enhancement	Total Expenditure Rate Board Hearing	Total Expenditures RRA Hearing
Abandoned Materials	\$969,000	\$6,369,000	\$7,800,000	\$969,000	\$6,369,000	\$8,000,000
Public Receptacles	\$886,000	\$4,986,000	\$6,300,000	\$886,000	\$4,986,000	\$6,500,000
Total	\$1,855,000	\$11,355,000	\$14,100,000	\$1,855,000	\$11,355,000	\$14,500,000

Program Enhancement	Rate Year 2024		Rate Year 2025	
	New FTE	Total FTE	New FTE	Total FTE
Abandoned Materials	2	15	0	15
Public Receptacles	2	12	0	12
Total	4	27	0	27

- Recology sent updates on program costs just prior to this hearing, which vary from the estimates from the Refuse Rate Board Hearing
- Abandoned Materials questions sent to Recology included request for unduplicated calls, tonnage changes, and Bayview service detail.
- Public receptacles questions sent to Recology included request for details on schedule and routes, adjustments to downtown zones during the pandemic, reallocation of resources to neighborhoods, expected impact of new barrels.

Program Enhancements

Program Enhancement	Rate Year 2024		RY2025 Enhancement	
	RRB Hearing Total	RRA Hearing Total	RRB Hearing Total	RRA Hearing Total
District Cleanup Events	\$559,000	\$640,000	\$559,000	\$660,000
Waste Zero Enhancements	\$393,000	\$450,000	\$393,000	\$460,000
Contamination Outreach	\$468,000	\$530,000	\$468,000	\$550,000
Organics Pre-Processing System	\$0	\$0	\$205,000	\$216,365
Total	\$1,420,000	\$1,620,000	\$1,625,000	\$1,886,365

Program Change	RY2024 Projected Revenue	RY2025 Projected Revenue
Contamination Fees	\$5,000,000	\$5,000,000

- Recology sent updates on program costs just prior to this hearing, which vary from the estimates from the Refuse Rate Board Hearing
- Questions for District Cleanup and Waste Zero program enhancements focus around details of resources needed, levels of service, and effectiveness of programs.
- Contamination Outreach/Fee questions include expected impact of cameras and FTE, detail on estimate of the \$5 million in fee revenue, and who the fee would impact.
- Organics pre-processing questions are related to effectiveness of the facility and the requirements for compostability.

Other Labor Enhancements & Vacancies

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Recology Proposal	New Hire or Vacancy	Employees Supporting in RY22	Hired Yet In RY23?	RY23 Expenditure	RY24 Expenditure	RY25 Expenditure
Maintenance Supervisor	1 New Hire	0	No	\$ 155,000	\$ 160,696	\$ 165,602
Mechanic	1 Vacancy	22	No	\$ 240,000	\$ 248,820	\$ 256,415
Shop Person	1 Vacancy	11	No	\$ 232,000	\$ 240,526	\$ 247,868
Operations Supervisor	2 New Hires	34	No	N/A	\$ 302,731	\$ 311,972
Operations Manager - Transportation	1 New Hire	6	No	\$ 196,000	\$ 203,203	\$ 209,406
Operations Supervisor (1 Transportation, 1 Shop)	2 New Hires	12	No	\$ 292,000	\$ 302,731	\$ 311,972
Waste Zero Specialist	2 New Hires	6	Not yet posted	N/A	\$ 288,217	\$ 297,014
Safe Service	3 New Hires	9	Not yet posted	N/A	\$ 740,240	\$ 762,835
Cardboard collection drivers	2 New Hires	2	Not yet posted	N/A	\$ 493,493	\$ 508,557
EIR Coordinator	1 Vacancy	0	Not yet posted	\$ 151,000	\$ 156,549	\$ 161,328
Rate analysts	2 New Hires	0	One position filled	\$ 344,000	\$ 356,642	\$ 367,528
Finance Manager	1 Vacancy	0	Position Filled	\$ 200,000	\$ 207,350	\$ 213,679
Assistant Controller	1 Vacancy	0	Position Filled	\$ 206,000	\$ 213,571	\$ 220,090
Senior HR Generalist	1 New Hire	0	Position Filled	\$ 161,000	\$ 166,917	\$ 172,012
GIS Supervisor	1 Vacancy	0	Position Filled	\$ 155,000	\$ 160,696	\$ 165,602
Payroll Coordinator	1 New Hire	2	Position Filled	\$ 111,000	\$ 115,079	\$ 118,592
Liens Collection	1 New Hire	0	Position Filled	\$ 119,000	\$ 123,373	\$ 127,139
Relief Drivers	2 New Hires	317	Position Filled	\$ 476,000	\$ 493,493	\$ 508,557
Human Resources Manager	1 Vacancy	1	Position Filled	\$ 188,000	\$ 194,909	\$ 200,859
Environmental Specialist	1 Vacancy	1	Position Filled	\$ 139,000	\$ 144,108	\$ 148,507
Artist in Residence/Environmental Program Specialist	1 Vacancy	1	Position Filled	\$ 105,000	\$ 108,859	\$ 112,182
Lube Tech	1 Vacancy	4	Position Filled	\$ 205,000	\$ 212,534	\$ 219,021
Total Cost unfilled positions	17			\$ 1,438,000	\$ 3,315,527	\$ 3,416,733
Total Cost All New Positions Since RY22	30			\$ 3,675,000	\$ 5,634,736	\$ 5,806,737

- In Recology's proposal, under their current pension funding model, the pension is expected to be fully-funded by Rate Year 2025.
- The Refuse Rate Administrator has asked for a model of what pension costs would look like with a fully-funded targets at:
 - 3 years (Rate Year 2026)
 - 5 Years (RY 2028)
 - 10 years (RY 2033)

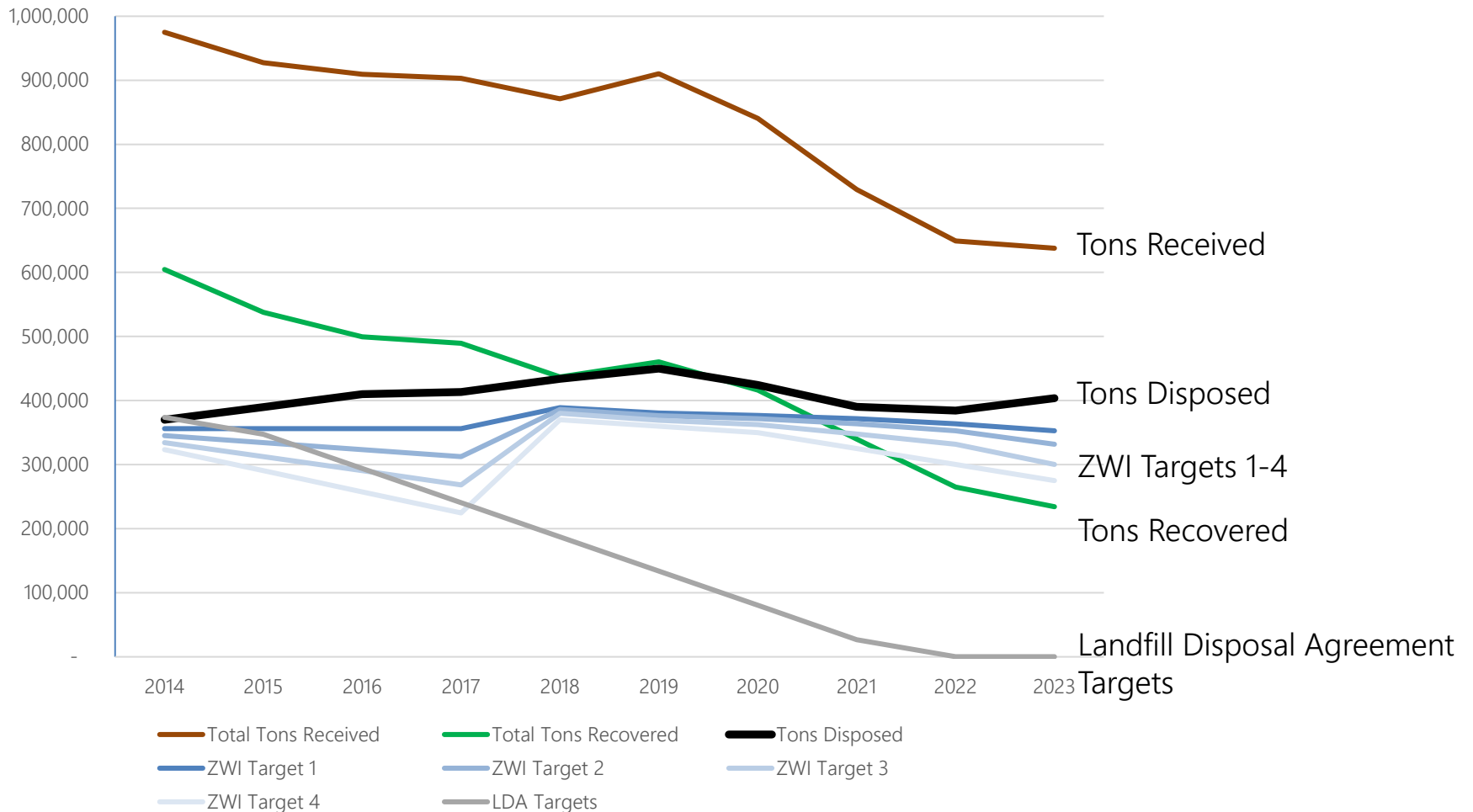
Zero Waste Incentive Account (ZWI)

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- Recology and SF Environment (SFE) propose modification of ZWI, Refuse Rates Administrator (RRA) proposes removal.
- ZWI is a financial incentive for Recology to reduce total trash headed to landfill.
- SFE has proposed to change ZWI to focus on recovery rate instead of disposal tonnage.
- $\text{Recovery rate} = \frac{\text{tons recovered (recycle + compost)}}{\text{total tons collected}}$.
- Increases in recovery rate would also reduce landfill tonnage.
- Recology had 62% recovery rate in 2014, 37% currently.
- ZWI goals were reassessed in the 2017 rate cycle to become more achievable after Recology did not meet any of the goals for several years.
- ZWI would contribute \$8.25M to refuse rates in RY24 and \$8.38M in RY25
 - 2.2% of each ratepayer's bill, or ~\$1/month for the average residential ratepayer.

Zero Waste Incentive Account (ZWI)

Landfill Tonnage Vs. ZWI Targets Over 10 Years



Zero Waste Incentive Account (ZWI)

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- RRA proposes to remove the ZWI for RY2024 and RY2025.
- ZWI has not correlated with reductions in landfill tonnage or improvement to recovery rates.
- Benefits:
 - increase transparency for ratepayers
 - reduce up-front costs
 - create new opportunities to improve recovery through alternate means.
- Next 2 years: RRA to work with Recology and SFE on trash processing test and quantitative analyses to improve recovery.
- If ZWI is removed:
 - Revenue requirement for Recology -\$8.25M in RY24, -\$8.38M in RY25.
 - 2.2% reduction in each ratepayer's bill, or ~\$1/month savings for the average residential ratepayer.

- Capital Infrastructure
 - Recycling Processing
 - Organics Pre-Processing
 - Landfill
 - Trash Processing
- Cost Allocation: Residential/Commercial Cost Allocation Study
- Vehicle Licensing and Route Permitting Review
- Contamination Mitigation/Diversion Study
- Performance Standards Process
- Consulting Support for Next Rate Cycle

Internal Studies

- City Can Pickup and New Trash Can Evaluation
- Evaluating City Roles
- Evaluating Reporting Requirements