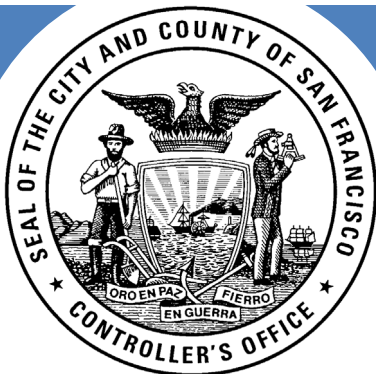


Refuse Rate Administrator's Hearing



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller, Office of the Refuse
Rates Administrator

May 25, 2023

Rate Item Change Proposals

- Operating Ratio/Profit Margin
- Rate Impact Summary
- Impound Account Changes
- Program Enhancement Changes
- Labor Enhancement Changes
- Economic Factors
- Pension Cost Cap
- Zero Waste Incentive Account
- Corporate Allocations

Non-Rate Items

- Balancing Account
- Additional Service Level Agreements
- Reporting Requirements
- Future Work

Operating Ratio/Profit Margin

3

- Recology Requests a 9.89% Profit Margin (91% Operating Ratio)
- ESOP Presents additional Tax Savings ~2-4% suggesting a profit margin of between 11.89%-13.89%
- 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%

Current Proposal Changes for Collections

4

Line Item Changes to Collections	Rate Year 2024			Rate Year 2025		
	Net Revenue Change (\$M)	% Rate Change	1 Unit Rate Change (\$)	Change (\$M)	% Rate Change	1 Unit Rate Change (\$)
Recology Proposal	\$375.53	3.90%	\$48.70	\$383.95	2.19%	\$49.76
Department Changes						
Impound Account	\$0.37	0.11%	\$0.05	\$0.75	0.20%	\$0.15
Impound Account Balance	-\$0.66	-0.19%	-\$0.09	-\$0.66	-0.18%	-\$0.18
Program Changes						
Contamination Enhancement	\$4.36	1.24%	\$0.58	\$4.32	1.16%	\$1.16
Organics Pre-Processing	\$0.10	0.03%	\$0.01	-\$0.12	-0.03%	-\$0.02
Labor and Other Changes						
Labor Enhancements	-\$0.29	-0.08%	-\$0.04	-\$0.30	-0.08%	-\$0.08
Pension 5-Year	-\$8.41	-2.39%	-\$1.12	-\$4.68	-1.26%	-\$1.74
Corporate Allocations (5%)	-\$0.78	-0.22%	-\$0.10	-\$0.81	-0.22%	-\$0.21
Economic Factor Changes						
Inflation Factor	-\$0.54	-0.15%	-\$0.07	-\$0.64	-0.17%	-\$0.16
Account Changes						
Zero Waste Incentive	-\$7.70	-2.19%	-\$1.02	-\$3.97	-0.37%	-\$1.23

Current Proposal Changes for Tipping Fee

5

Line Item Changes Tipping Fee	Rate Year 2024			Rate Year 2025		
	Change (\$M)	% Rate Change	Tipping Fee (\$)	Change (\$M)	% Rate Change	Tipping Fee (\$)
Recology Proposal	\$152.33	16.36%	\$255.82	\$153.81	0.08%	\$256.03
Labor and Other Changes						
Pension 5-Year	-\$4.53	-3.53%	-\$7.76	-\$2.32	1.56%	-\$3.91
Corporate Allocations (5%)	-\$0.02	-0.02%	-\$0.04	-\$0.03	0.00%	
Economic Factor Changes						
Inflation	-\$0.02	-0.02%	-\$0.04	-\$0.04	0.00%	-\$0.04
Account Changes						
Zero Waste Incentive	-\$3.10	-2.42%	-\$5.32	-\$3.11	1.08%	-\$2.62

Impound Account Changes

6

Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
Impound Account Impact	\$370,894	\$748,457
% Change	4.01%	2.39%
Difference from Recology Proposal	0.11%	0.20%

- Total Impound Account budget being requested by Departments is \$24.2 million in FY 2024 and \$24.6 Million in FY 2025.
- This request is an additional \$371k and \$748k over Recology's proposal for the same years, which would increase rates by 0.11% and 0.20% for FY2024 and FY2025 respectively.
- The Refuse Rate Administrator is also working with SFE and the City Attorney's Office to review Impound Account programs for nexus.
 - As an initial step to reduce risk to the City, the Refuse Rate Administrator and SFE are proposing to move approximately \$2.5 million from program areas of Outreach, Green Building, Environmental Justice, and Climate out of rate funding.
 - Refuse Rate Administrator is moving an equal amount of mechanical street sweeping into the rates.

Impound Account Balance Use

7

Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
Disposal and Processing Change	-\$664,312	-\$664,488
Impound Account Balance Impact	-\$664,312	-\$664,488
Impound Account % Change	3.71%	2.01%
Difference from Recology Proposal	-0.19%	-0.18%

- Currently there are \$23 million in unspent Impound Account funds.
- DPW has requested \$15 million to fund 3,300 new public trash cans.
 - RRA is proposing that this cost is spread across three years at \$5 million per year.
- RRA is proposing to use \$1.5 million, spread across two years, to fund the proposed Trash Processing Pilot and the Pier 96 Study. These are one-time expenditures that will lower rates with no impact on future rate-setting.
- Remaining funds can be used to support studies work needed to be conducted to inform future rate cycles without impact to rates.

Program Enhancement: Contamination

8

Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
Waste Zero Enhancement	-\$395,708	-\$407,787
Contamination Outreach	-\$239,408	-\$267,942
Contamination Fee	\$5,000,000	\$5,000,000
Contamination Program Impact	\$4,364,884	\$4,324,271
Difference from Recology Proposal	1.24%	1.16%

- Waste Zero Outreach: conducts site visits, presentations, and service recommendations to maximize diversion
- Contamination Outreach: Outreach and education and on-board camera and 3rd eye subscription and 1 additional FTE.
- Contamination Fee: Impact of the above outreach is estimated to generated \$5 million in additional contamination fees.

- Before committing to the contamination enhancements the Refuse Rate Administrator recommends resolving several uncertainties:
 - Uncertainty around the technology. Possible issues around consistent clear photos, and false positives.
 - Uncertainty in the revenue estimate.
 - Uncertainty in the customer response. Will this modify behavior (i.e. provide data to show how contamination fees and outreach have reduced repeat offenders or reduced amount contaminated.)? How will customers respond to cameras in their trash? San Francisco has a high volume of pedestrians, who could potentially contaminate bins, incurring contamination costs for otherwise compliant ratepayers.
- Current contamination program protocols need to be reviewed.

Program Enhancement: Organics Pre-Processing

10

Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
Pension	-\$8,414,294	-\$4,684,945
% Change	-2.39%	-1.26%
Difference from Recology Proposal	-6.29%	-3.44%

- Recology is looking to reduce the amount of non-compostable tonnage in its organics collections (currently, 24% is non-compostable).
- Recology's initial proposal is to invest in a \$3.2 million system on a 10-year lease. This system would not be implemented until later in Rate Year 2025, and would cost approximately \$205k in the first year, and \$410k per year in future rate years.
- Given the uncertainty of the new technology and the immediate need for a solution, Recology will now be proposing using screens as an interim solution, which could be implemented more quickly at a lower cost (estimated around \$180k per year).
- During the interim, a study will be conducted on to determine the appropriate long-term solution for organics pre-processing.

Labor Enhancements

11

Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
RRA Change to Labor Enhancement	-\$288,217	-\$297,014
Difference from Recology Proposal	-0.08%	-0.08%

- Recology has hired 13 FTEs (+\$2.4M) in the current rate year, and propose to add 21 FTEs in RY24 (+\$4.5M) and RY25 (+\$4.6M).
- RRA has evaluated these hires and discussed them with Recology as well as DPW and SFE. RRA proposes to:
 - Not approve 2 new Waste Zero Specialist FTEs, to better test the contamination outreach and system before hiring. (-\$288K)
 - Allow 19 new FTEs in RY24 and 13 continued FTEs from RY23, but request that they are hired as temporary project-based positions not to exceed 2 years. The RRA will reevaluate these positions in the next cycle.
 - RRA will monitor driver : supervisor : manager ratios
 - RRA will monitor FTEs allocated to different operations, accomplishments, and cost vs. benefit

Pension Costs

12

Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
Pension	-\$8,414,294	-\$4,684,945
% Change	-2.39%	-1.26%
Difference from Recology Proposal	-6.29%	-3.44%

- Recology's initial proposal set pension costs at level where it would be fully funded by RY 2025.
- Refuse Rate Administrator is proposing capping annual costs where the pension could be fully funded in 5 years.
- The RRA proposal limits any cost allocations above any beyond those included in the rate order.
- Reporting on pension funding status will be reported quarterly.

Corporate Allocations

13

Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
Corporate Allocations (5%)	-\$782,775	-\$806,675
% Change	-2.39%	-1.26%
Difference from Recology Proposal	-6.29%	-3.44%

- Based on prior audits, Refuse Rate Administrator believes that Corporate Allocations are high.
- RRA has requested that Recology show how various expenses within Corporate Allocations are identified as eligible and to show that no profit or embedded profit is being earned on corporate and overhead allocations beyond the Operating Ratio that is factored into the proposal.
- Pending the response to this request, RRA is proposing 5% cut in Corporate Allocations.

Inflation Factor

14

Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
Recology Inflation Assumption	3.68%	6.05%
RRA Inflation Assumption	3.44%	2.89%
Inflation Impact	-\$56,089	-\$97,920
% Change	3.75%	1.61%
Difference from Recology Proposal	-0.15%	-0.58%

- Recology’s initial proposal used inflation factors based on the Controller’s Five-Year Financial Plan, published in December 2022.
- Controller’s Office has updated its inflation forecast March, which projects slightly lower inflation levels.
- The Controller’s Office 5-Year Financial Plan update makes no change to the economic forecast.

Zero Waste Incentive Account (ZWI)

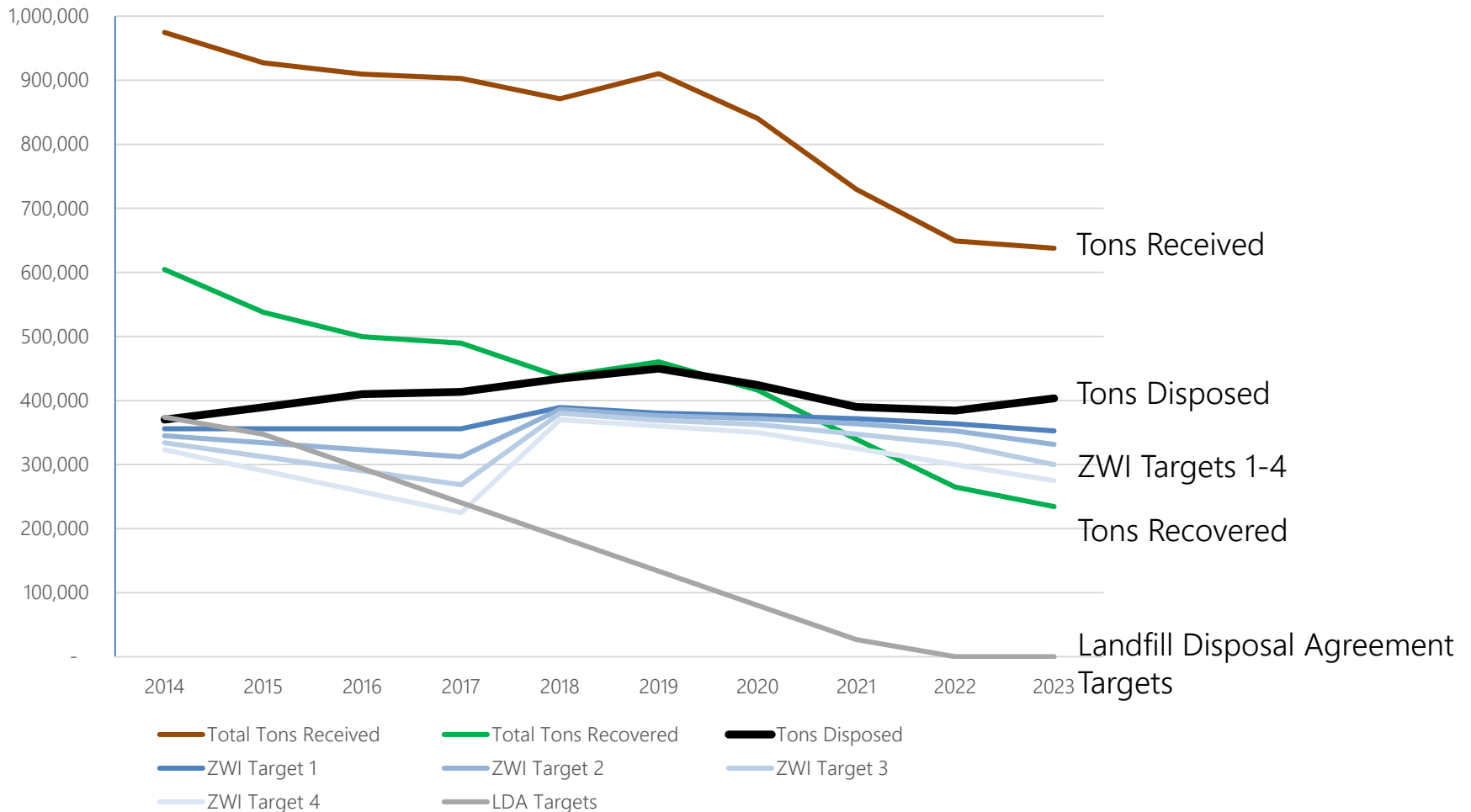
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Collection Rate Impact	Rate Year 2024	Rate Year 2025
Recology Proposal	3.90%	2.19%
ZWIA Net Revenue Requirement Impact (\$M)	-\$7.7	-\$6.5
Change from Recology Proposal	-2.19%	-0.37%

- Zero Waste Incentive Account (ZWI) is a financial incentive account that Recology could draw down on if certain targets are met. Meeting all targets would equal an additional 2% profit for Recology.
- ZWI would contribute \$8.25M to refuse rates in RY24 and \$8.38M in RY25.
- Unachieved funds from the account have been used in the past to support infrastructure spending, which was approved outside of the rate process.
- Recology has not met the ZWI targets for several years. Recology currently has a recovery rate of 37%, down from had 62% in 2014.

Zero Waste Incentive Account (ZWI)

Landfill Tonnage Vs. ZWI Targets Over 10 Years



Zero Waste Incentive Account (ZWI)

17

- ZWI has not correlated with reductions in landfill tonnage or improvement to recovery rates.
- Refuse Rate Administrator is proposing suspending the incentive account to look at other models that may be more effective and could reduce costs to rate payers.
 - Reduce cost to ratepayers
 - Increase transparency in spending
 - Consider alternatives with either retrospective incentives/penalties
- Other new diversion and contamination mitigation investments will be part of the rate proposal. These include a trash processing pilot and investments in organics pre-processing.

- **Purpose:** Serves Ratepayers by ensuring any unanticipated savings or surplus revenues are used to offset their subsequent years costs, and that unanticipated expenditures or revenue shortfalls are smoothed in over time to mitigate rate shocks.
- **Adjustment:**
 - Below 91% OR: 50% of the amount below will be taken from the balancing account and used to cover any approved "Substituted Costs" or shortfalls or eligible costs previously reviewed and covered by the approved Rate Order.
 - If Above 91%: 50% of the amount will result in reduction to the Rate Order Balancing Account and any Balancing Account amounts projected or determined will be considered in the subsequent Rate Request of the Provider and may result in rate changes over a multiple year subsequent rate order, not to exceed five years.
- **Adjustment Range:** Not to exceed +/- 2.5% of Net Revenue Subject to Rate setting for any subsequent year.

- **Abandoned Materials** – Required pickup of abandoned materials within 4 hours of notice M-F (except holidays). M-F 5:30am-2pm. During weekends and holidays, pickup requirements would be expanded to 8 hours from notice, and different hours of operation might apply. Service level agreement wouldn't apply beyond 310 notices/day or 113,282 notices/year.
 - Proactive Bayview, Mission, and Chinatown pickup will continue with M-F pickup, 6:00am-2pm on Monday, Tuesday, Wednesday, and Friday. 5:00am-1pm on Thursday. All zones to retain 2 FTE and 2 trucks each, Bayview to receive additional dedicated 1 rear-end loader and 1 FTE.
- **Public Receptacles** – Required pickup of public receptacles within 2 hours of notice from 10am-6:30pm, and regular pickup of all public receptacles along regular routes earlier in the mornings. Service level agreement wouldn't apply beyond 241 notices/day or 87,825 notices/year.
 - Repair of receptacles within 72 hours of notice pending availability of parts.
- **Disposal of Street Sweeping and Abandoned Waste** – Public Works may self-haul certain nonhazardous materials it collects to the Transfer Station and dump them at no charge. These materials consist of street sweeping and abandoned waste delivered to the Transfer Station in Public Works' street sweeping vehicles and all Public Works pick-up, bucket, and packer trucks used for abandoned waste collection.

Service Level Agreement

Programs continued from the current rate order:

Service	Details
Trash, Recyclables, & Compost Collection	Pickup as scheduled on-time
Bulky Item Recycling	2 pre-scheduled pickups per calendar year included in service, averaging 48 hours wait time or less.
Weekend Clean-up	22 events/year
Battery recycling	Collection from orange bins or bags on top of bins included in service
Christmas Tree Pickup	1 collection per year in January included in rates
Construction and Demolition	Recovery of materials at iMRF in compliance with the City's Construction and Demolition Debris Recovery Ordinance
Public Refuse and Recycling Area (PPR)	Available to ratepayers
Household hazardous waste drop off	Operational 3 days/week
Door to door household hazardous waste collection	Available to ratepayers
Household hazardous Take back	Available to ratepayers
Very small quantity generator program	Available to small businesses for a fee by appointment
E-waste recycling	2 trailers/week from BIR and Tunnel Ave.
Safe needle Program	Available to ratepayers
Perfectly-good reuse program	Staffing and quantity to be defined
Mattress recycling	Available to all Tunnel Ave.
Toilet recycling	Available to all Tunnel Ave.
Tire recycling	Available to all Tunnel Ave.
Styrofoam drop off	Available to all Tunnel Ave.
Film Plastic drop off	Available to ratepayers
Litter collection from CBDs	Available to certain CBDs
Event recycling	Available to certain neighborhood festivals and major events
Artist in residence	
Educational tour program	Available to schools and ratepayers
Compost giveaway	Available to ratepayers

Reporting Requirements

21

- Recology provides quarterly and annual rate reports, as well as independently audited annual financial statements for the combined companies serving SF. RRA will continue and expand on this, formalizing continued reporting from settlements such as balancing account and reconciliation agreed upon procedures which link the audits to the quarterly reports.
- RRA will request additional reporting in quarterly and annual reports:
 - Customer service levels and lifts quantified at point-in-time for each quarter and non-rate fee revenue by item.
 - MS Excel format to accompany all submissions with calculations retained.
 - Weight ticket detail to verify recovery rates.
 - Driver, supervisor, manager, and shop FTEs at point-in-time for each quarter and overtime. Pension report.
 - Diversion discount, contamination, contamination fee, outreach, and efficacy tracking. Customer service and equity metrics.
 - Public receptacle and abandoned material collection metrics.
 - Compost sale tonnage and energy generation MWs and related revenues.

Contracted Work

- Capital Infrastructure Needs
 - Recycling Processing
 - Organics Pre-Processing
 - Landfill
 - Trash Processing
- End-to-end Contamination Mitigation/Diversion Study
 - Market Conditions for Recyclables and Compost
 - Waste to energy
- Cost Allocation: Residential/Commercial Cost Allocation Study
- Vehicle Licensing and Route Permitting Review
- 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
- Nexus Review