



Rate Change Request

Refuse Rates Administrator Hearing #1

May 9, 2023



Agenda

1. Profit, OR, and Balancing Account
2. Outreach and Education
3. Contamination Fees
4. Abandoned Materials Collection
5. Public Receptacles
6. Weekend Clean-up Events
7. Safe Service
8. Organics Compliance
9. Managing Costs
10. Pension Scenarios

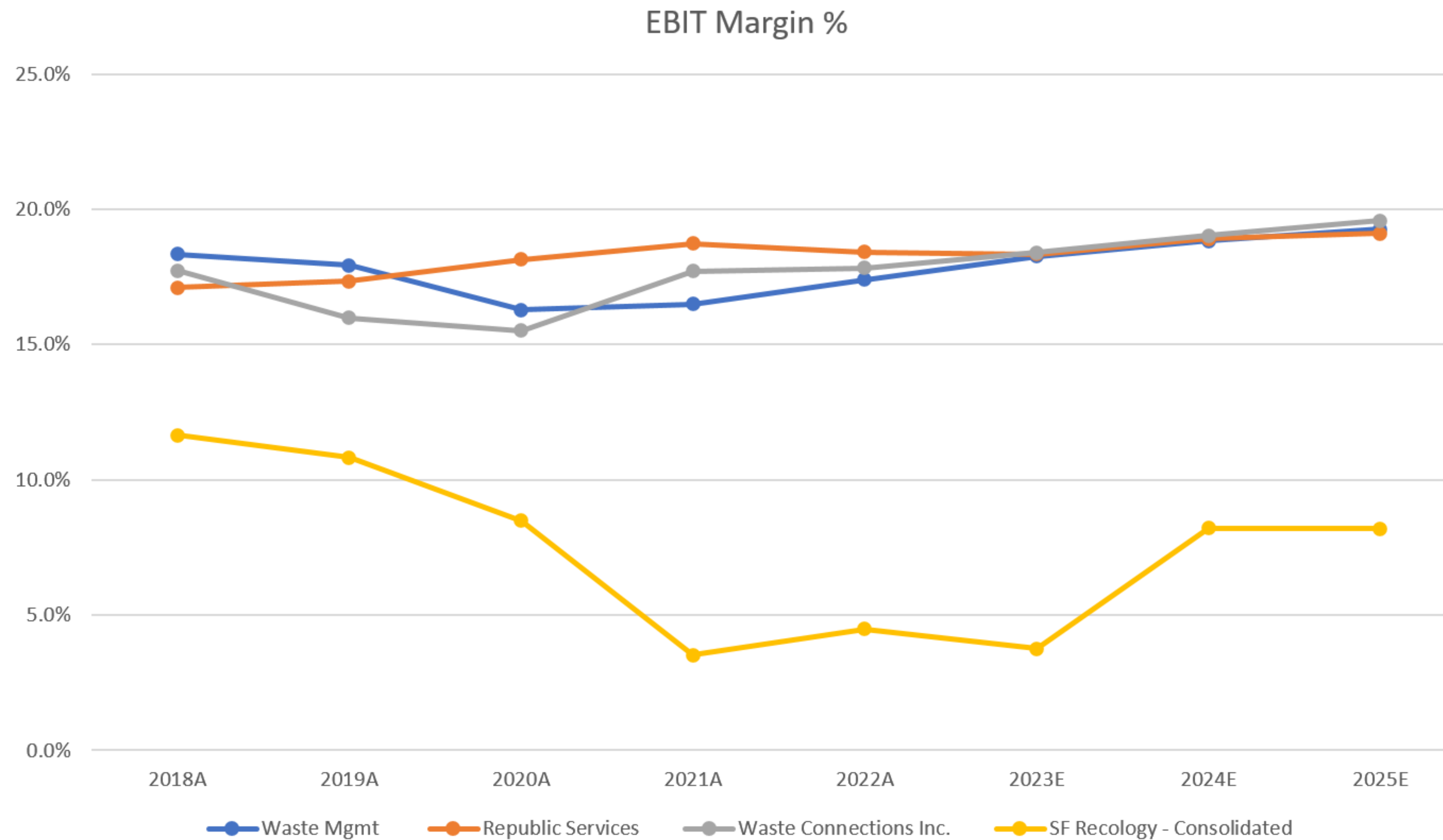
Profit, OR, Balancing Account

Profitability

- Reasonable return for risk of investing capital
 - Capital investments to serve ratepayers not risk free
- Required for financing
 - Lower profits lead to higher capital costs
- Return value to employee-owners
 - One of the few 100% employee-owned companies in industry

EBIT Margin

- Substantially lower EBIT margin than competitors



Operating Ratio & Profit Margin

- OR applied only to a portion of expenses (“OR-eligible expenses”)
 - OR-eligible expenses are approximately 65% of RSS / RGG expenses and approximately 80% of RSF expenses
- Operating Ratio in San Francisco is high (lower profits) by industry standards
- Average OR of 29 California jurisdictions is 89.4% vs. 91% OR for San Francisco
- Effective profit margin always lower than profits on OR-eligible expenses
- Actual OR on all consolidated rate eligible expenses is projected to be 92.4%

Balancing Account

- Mechanism designed to hold Recology to the profit level approved in Rate Order
- Profits on OR-eligible expenses consistent with OR target profit if adjustments are based on 100% of profits earned
- No guarantee of any dollar-amount of profit or any effective profit margin
 - Regulatory changes
 - Increase in non-OR expenses
 - Revenue variations

Outreach and Education

Outreach and Education

- Recology provides the following outreach
 - Education about local ordinances and regulations
 - Information regarding keeping sidewalks clear of excess cardboard and garbage
 - Customer service, increasing or decreasing service, extra pickups
 - Contamination monitoring, documentation, tagging
 - Website resources / social media outreach
 - Waste stream audits / Refuse Separation Ordinance compliance audits
 - Distribute signs, posters, flyers, brochures
 - Tabling / outreach at events
 - Tours and training
 - Commercial buildings outreach, large multifamily
 - Special event service coordination aimed at low / zero waste events
- Recology coordinates with SFE and Public Works
 - Coordinating with SFE on all outreach efforts, including reporting to SFE on RSO audits
 - Supporting Public Works' compliance efforts

Outreach and Education

- Outreach conducted (July 2022 – March 2023)
- Account level tracking
- Outreach goals / SFE Partnership

Category	Total
RSO reports sent to SFE	125
Individual RSO audits	628
Large commercial touches 808+ gallons / week	804
Apartment touches	158
New WZ Champion Commercial	34
Special events inspections	214

Outreach and Education

- Commercial accounts receiving targeted Waste Zero Team outreach improved diversion:

Customer	Apr 2015 Diversion	Apr 2023 Diversion
1	63%	79%
2	73%	82%
3	49%	82%
4	54%	64%
5	59%	72%

- Average SF diversion based on collected tons (Mar. 2023): 39.6%

Contamination Fees

Contamination Fees

- Estimate of \$5M in additional annual fees:

Contamination Revenue Estimate	
Average contamination revenue per customer with contamination per month	\$690.91
Additional accounts identified	608
Est. monthly revenue	\$420,073
Est. annual revenue	\$5,040,876

- Additional Waste Zero FTEs required to administer program and to work with affected customers to improve sorting
- Without these FTEs, lower contamination fee revenue, which means a higher revenue requirement from ratepayers

Contamination Fees

- Expect reduction in contamination from cameras and FTE
 - RY 2024 rollout
 - Will identify ~7200 annual additional instances of contamination
 - Will provide data for analysis
 - Will allow identification of other areas to target
- Ratepayer projected impacts
 - Commercial: 71.69%
 - Apartment: 18.51%
 - Compactor: 9.79%
 - Residential: 0.01%

Abandoned Materials Collection

Abandoned Materials

- Tonnage down slightly and vast majority of calls unique

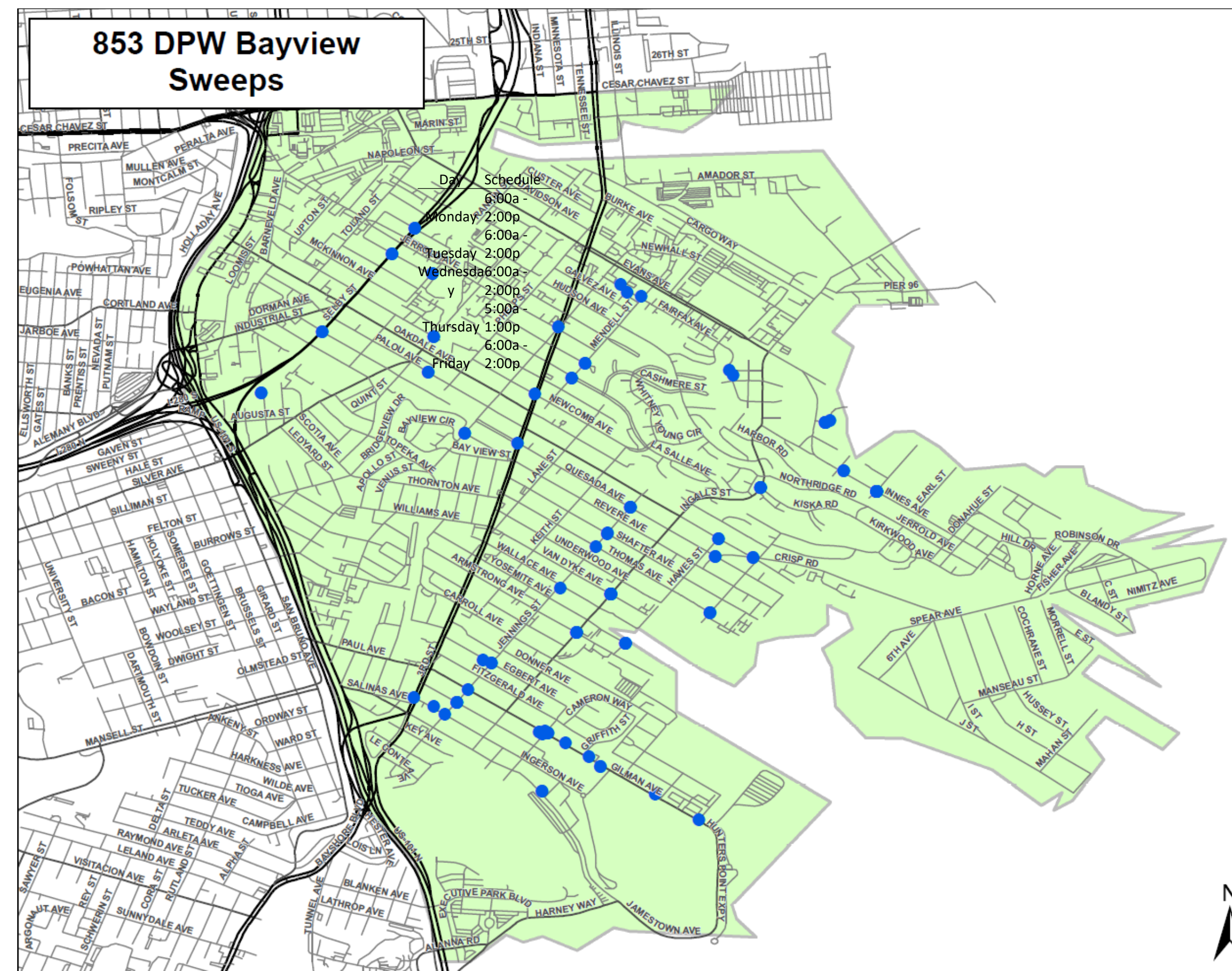
Ry	Tons Collected	YOY Change	311 Requests	Duplicated	Adjusted 311 Requests	YOY Change
2018	4,655	—	99,804	3,793	96,011	—
2019	4,693	1%	114,816	4,363	110,453	15%
2020	5,456	16%	135,257	5,140	130,117	18%
2021	5,185	-5%	110,104	4,184	105,920	-19%
2022	4,408	-15%	113,282	4,305	108,977	3%
2022 vs 2018		-5%				14%

- Adjusted 311 requests show demand for program, not tonnage
 - Number of unduplicated service requests up by 14%
 - Tonnage down by 5%, indicating lighter material that is more dispersed
 - Requires more trucks and drivers to meet 4-hour service goal

Abandoned Materials

- Cardboard collection: 2 new FTE to replace overtime currently incurred
- Bayview proactive service

Day	Schedule
Mon.	6 a.m. – 2 p.m.
Tues.	6 a.m. – 2 p.m.
Weds.	6 a.m. – 2 p.m.
Thurs.	5 a.m. – 1 p.m.
Fri.	6 a.m. – 2 p.m.



Public Receptacles

Public Receptacles

- Adjustments to reflect lower foot traffic

Period	Weekday Routes	Change	Weekend Routes	Change
Pre-pandemic	11	—	11	—
SIP phase	10	-1	4	-7
Late pandemic	10	—	10	6

- Driver from removed route used as replacement to support other routes
- Potential additional reallocation of resources to other neighborhoods
 - Initial reallocation already occurred during pandemic
 - Further reallocation will require detailed analysis working with Public Works
 - Receptacles receiving less use still require regular service
 - Moving routing resources away from downtown without analysis could create blight issues

Public Receptacles

- Potential additional receptacles to reduce new routes would need to be studied
 - City determines placement and quantity of receptacles
 - Rates based on current service levels and Public Works proposals
- Sensors
 - 285% increase in total service requests after partial rollout of sensors
 - Additional routes needed to address projected increased demand
 - Additional FTEs and truck based on initial estimates that may be subject to change as actual demand is determined

Weekend Clean-up Events

Weekend Clean-up Events

- Comparison with Bulky Item Recycling
 - Weekend Clean-up for smaller, easily transportable items
 - Weekend Clean-up reduces AMC and is not a substitute for BIR
 - BIR is run on a per-pickup, not per-ton, basis
- Public notice
 - Approx. 4,000 mailers to area residents per event
 - Number of mailers helps to size event appropriately
- Historic levels of service
 - 5 debris boxes with average weight of 2.73 tons or 13.65 total tons collected per event

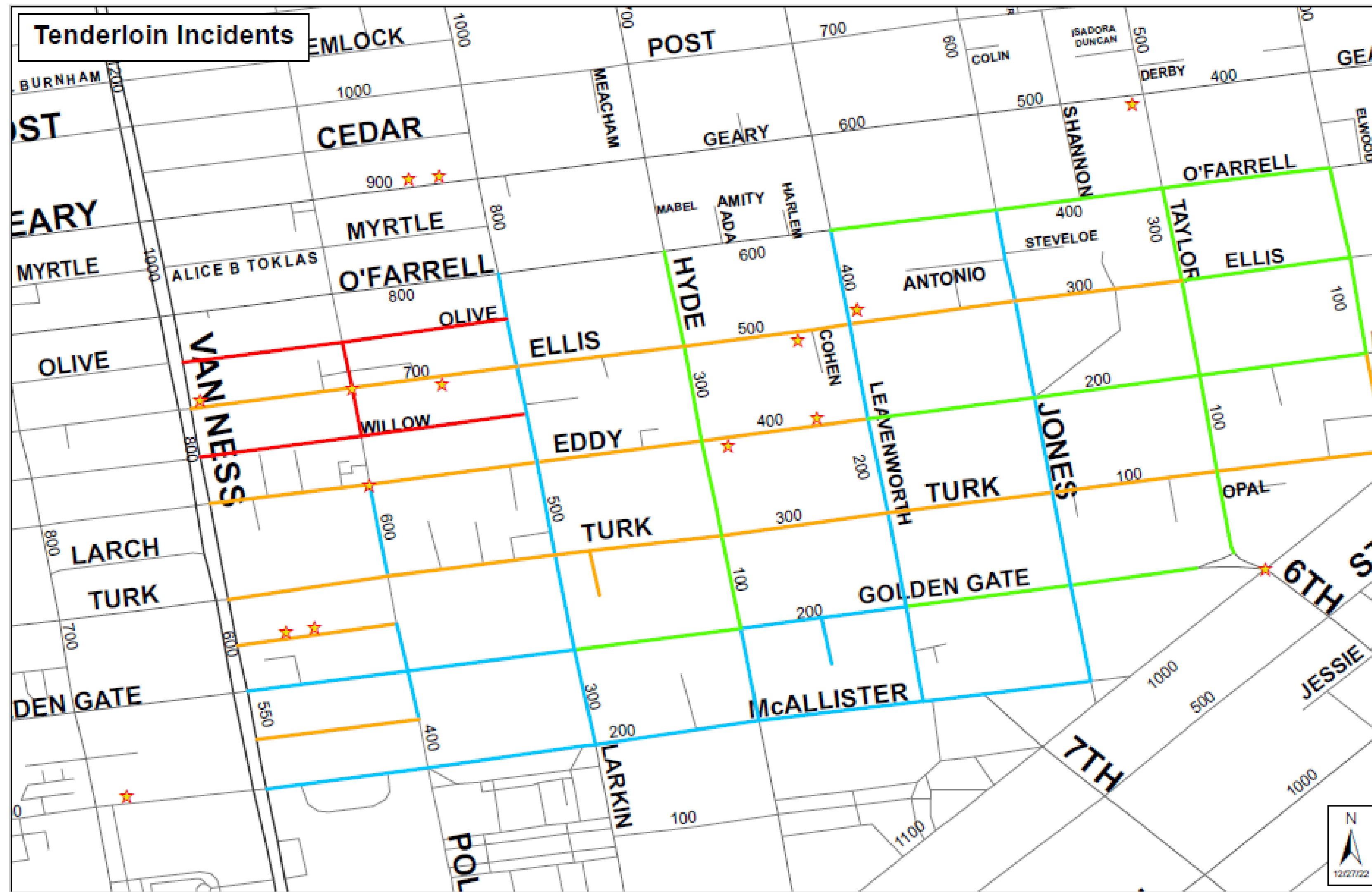
Safe Service

Safe Service

- Safety of employees is top priority
 - Drivers have contacted company and union jointly regarding increased frequency and severity of Tenderloin incidents
 - Recology and union met with Supervisor Preston, DA, and SFPD
 - Changed start times, rerouted routes, added second person to routes, added supervisor
- Addition of a second person to route increases safety
 - Report incidents
 - Assist with de-escalation
 - Secure buildings during service when needed
 - Attend to vehicle while receptacles retrieved from building interiors
- Ongoing conversations with SFPD to provide de-escalation training to drivers serving Tenderloin

Safe Service

- Locations of incidents



Organics Compliance

Organics Compliance

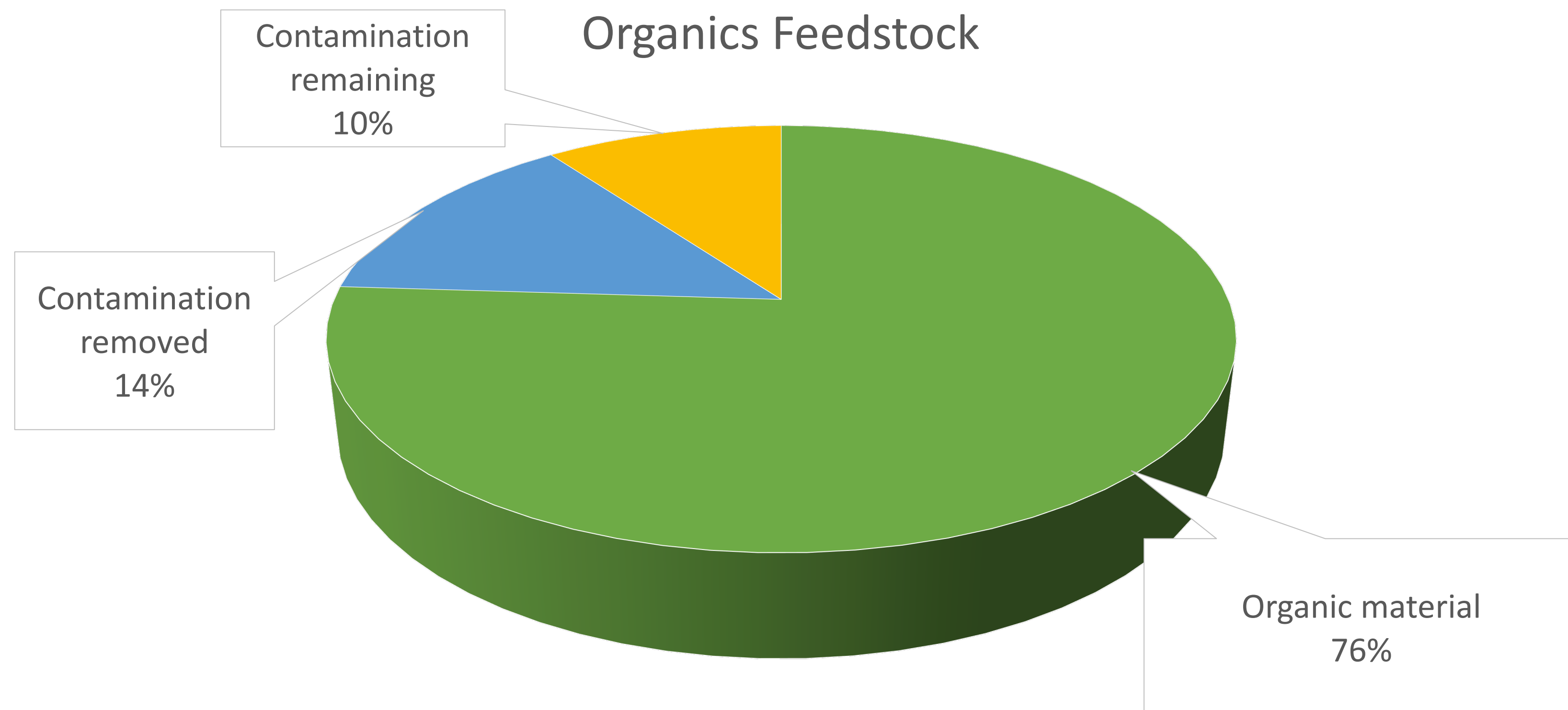
- BVON 10% contamination threshold
 - Currently 24% contamination rate
- Pre-processing system
 - Max. 50 tons/hour throughput
 - Projected need of 35-40 tons/hour (550 tons / 14-16 processing hours)
 - Projected removal of 58% of contamination in organics feedstock

Organics Compliance

- Contamination reduction

$35 \text{ tph} \times 24\% = 8.4 \text{ tph contaminated} \times 58\% = 4.9 \text{ tph removed}$

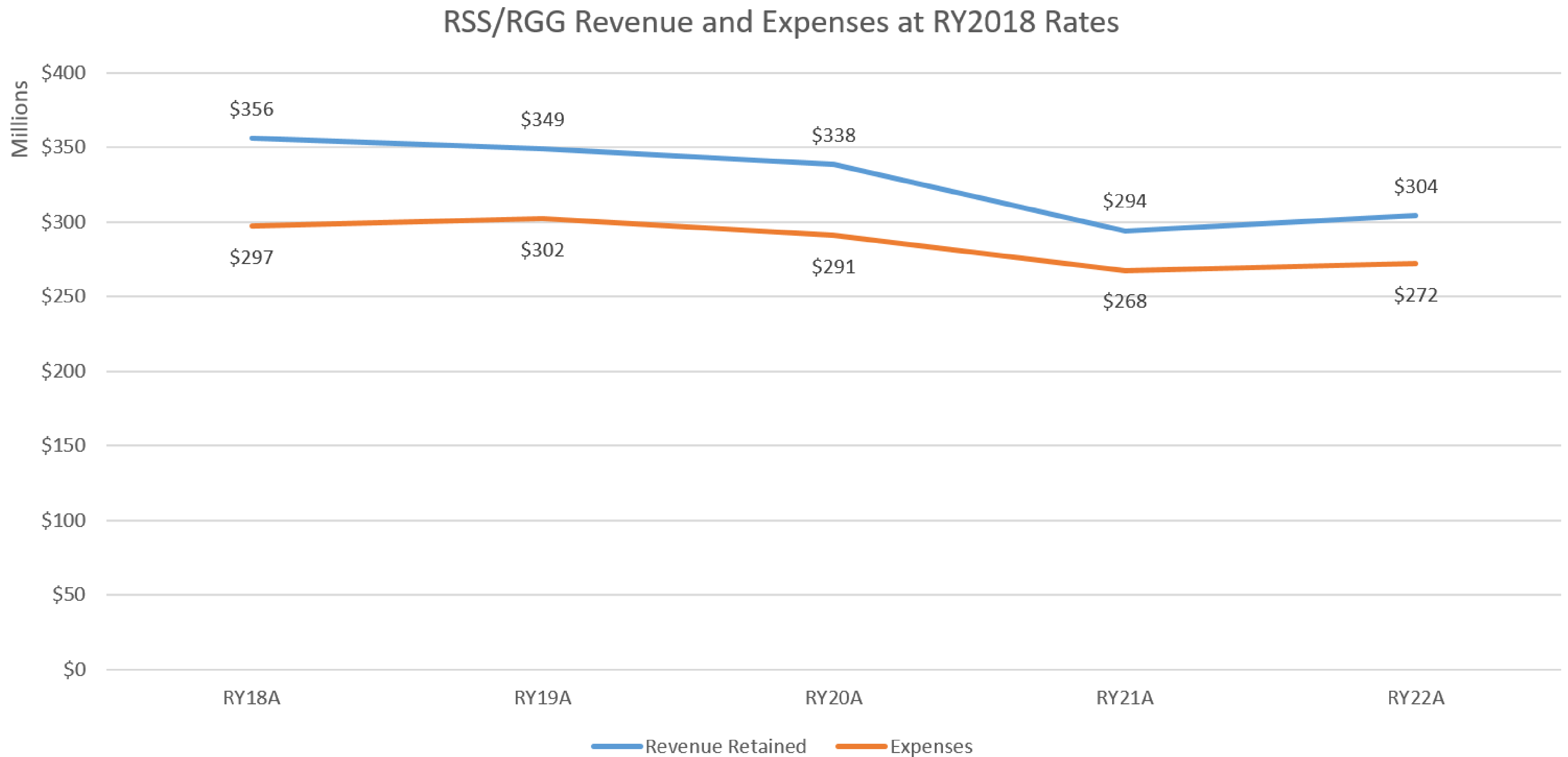
$40 \text{ tph} \times 24\% = 9.6 \text{ tph contaminated} \times 58\% = 5.6 \text{ tph removed}$



Managing Costs

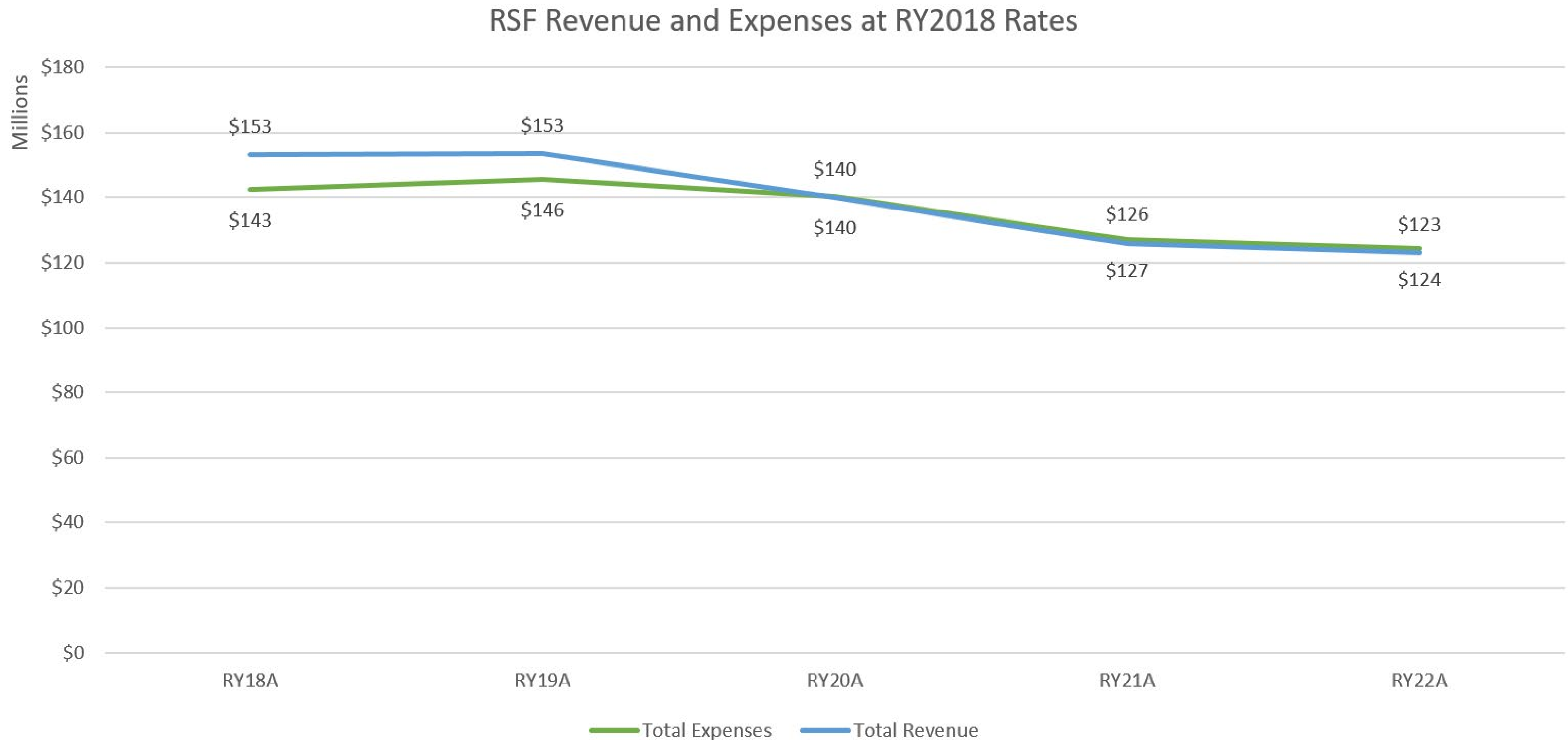
Managing Costs: RSS / RGG

- Costs managed in response to pandemic-related service changes:



Managing Costs: RSF

- Costs managed in response to pandemic-related service changes:



Managing Costs

- Recology right-sized business in response to pandemic
 - Decreased number of FTEs
 - Personnel reallocated when services reduced
 - Vacant positions not filled
 - Headcount did not change by same amount as FTEs because general workplace behavior trends required additional available personnel

	RY 2020	RY 2021	RY 2022
RSS / RGG			
FTE	551	509	513
Headcount	676	657	668
HC / FTE	1.23	1.29	1.30
RSF			
FTE	337	318	300
Headcount	432	411	388
HC / FTE	1.28	1.29	1.29

RSS / RGG New FTE RY 2023 vs. RY 2022

Category	Job Type	FTE	Explanation
Non-Union Exempt	Rate Analyst	2	Rate Analyst FTEs are necessary to meet new quarterly rate reporting requirements, including reporting on Balancing Account, elective expense analysis, and quarterly reconciliation to Recology financials. The current workload is beyond current staffing capacity and deadlines / reporting compliance would be impacted without these FTEs. The rate analysts will also ensure rates in our billing system are up to date and accurate. Finally, modifying and enhancing our Accounting ERP to be able to report on rate versus non-rate revenue and expenditures will be a significant project that will take place over the next two years. We expect to continue working with the Controller's Office to further modify future rate reporting and to respond to requests for information.
Non-Union Exempt	Senior Human Resource Generalist	1	The SF HR team supports over 1,000 employees, including union employees covered by nine collective bargaining agreements. Corporate HR develops policies, manages group benefits and provides training and support for local teams. As discussed in the rate hearings, there has been a substantial increase in the number of leaves and other administrative and reporting requirements. In addition, union requests for meetings and correspondence have increased with the implementation of the new CBAs.
Non-Union Non-Exempt	Payroll Coordinator	1	Currently we have one Payroll Coordinator processing the payroll for all 665 RSS and RGG employees. The current Payroll Coordinator is supported by the Accounting Supervisor who also manages the month-end close for RSS and RGG. Due to the last CBA negotiations, RSS union employees moved from a bi-weekly pay cycle to a weekly cycle thereby increasing the processing workload.
Non-Union Non-Exempt	Liens Collection	1	A Liens Collections FTE is necessary to send delinquent accounts that cannot be liened to our third-party collection agency. Duties include generating a list of delinquent accounts after each month's lien cycle, formatting and sending information to third-party collector, researching and responding to third-party and/or customer inquiries, and reconciling payments received. DPH will only lien Residential, Apartment, and Commercial customers who had service in the last 180 days. We have delinquent customers who fall outside of this 180-day service range that need to be sent to collections. The Liens Collections FTE will also manage the collection of delinquent debris box customers, a subset of customers that are not lienable by DPH. Since 2021, DPH has changed their QAQC process, which created additional workload that is not sustainable for the current AR Specialist.
Union – Driver/Helper	Driver	2	Additional relief drivers needed to provide route coverage due to increased absenteeism.
Non-Union Exempt	Maintenance Supervisor	1	Supports the Maintenance Manager and department's 24-hour window of operation. Currently there is no coverage for two-thirds of the day.
	Total	8	

RSS / RGG New FTE RY 2024 vs. RY 2023

Category	Job Type	FTE	Explanation
Non-Union Exempt	Operations Supervisor	2	<ul style="list-style-type: none"> - Supports the operations in the Tenderloin: additional drivers provide a quicker response from set-out time to collection. Reduces the time our drivers spend at each customer and ensures our employee-owners are not alone. These additions also reduce the amount of time our drivers are away from the truck when retrieving carts for service. The additional supervisor will be dedicated to the Tenderloin and surrounding areas to improve our presence and respond to incidents that require immediate attention. - Supervises Citywide cleanup events and public receptacle supervision.
Non-Union Exempt	Waste Zero Specialist	2	<ul style="list-style-type: none"> - Supports SFE's diversion goals with additional outreach to commercial customers generating two or more yards per week, with less than 50% diversion rates. - Increases outreach and education through additional compost related collateral, trainings, and site visits. - Partners with SFE to roll out onboard camera system in the hopper trucks, which capture contamination at the point of collection.
Union Driver/Helper	Driver	9	<ul style="list-style-type: none"> - 2 drivers to support increased service demands with public receptacles. - 2 drivers to support additional abandoned materials route. - 3 drivers to support Tenderloin routes. - 2 drivers to support cardboard collection in high demand areas through the abandoned materials program.
	Total	13	

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

RSF New FTE RY 2023 vs. RY 2022

Category	Job Type	FTE	Explanation
Non-Union Exempt	Operations Manager - Transportation	1	RSF had a Transportation Manager who retired just prior to the onset of Covid and the decision to not replace the position was made in order to manage operational expenses as tonnage was down significantly over prior years. Since this time, we have seen the Transfer Station tonnage rebound somewhat and the need to fill the position is apparent. Currently this business unit is overseen indirectly by the Senior Operations Manager.
Non-Union Exempt	Operations Supervisor - Transportation	1	A supervisor must be present at all times when we are operating. The manager from Sustainable Crushing has been temporarily assigned to the position to backfill the position. Recent collective bargaining efforts have complicated the dispatch process.
Non-Union Exempt	Operations Supervisor - Shop	1	This position is needed to oversee Long Haul Shop operations during swing shift (1 – 10 pm) and provides coverage for the graveyard shift. Current department is overseen by the Shop Foreman who is retiring.
Union – Shop/Facility	Lube Tech	1	C&D line maintenance position required to maintain new processing lines. Provides coverage over two shifts.
	Total	4	

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

Pension Scenarios

Pension Scenario 1

- Contribution required to reach 100% in 3 years
- Actuarial projection of defined-benefit Pension Plan funding status with \$17M annual contribution for 3 years:

YE26 (3 years)	YE28 (5 years)	YE32 (long-term)
100%	99%	97%

- SF Group costs ~92% of \$17M annual contribution
- Total funding to reach 100% - \$51M
- Long-term funding necessary
- If Plan funding status falls below 95%, supplemental annual contribution of \$5M until funding status reaches 100%

Pension Scenario 2

- Contribution required to reach 100% in 5 years
- Actuarial projection of defined-benefit Pension Plan funding status with \$12M annual contribution (service cost) for 5 years:

YE26 (3 years)	YE28 (5 years)	YE32 (long-term)
98%	100%	99%

- SF Group costs ~92% of \$12M annual contribution
- Total funding to reach 100% - \$60M
- Long-term funding necessary
- If Plan funding status falls below 95%, supplemental annual contribution of \$5M until funding status reaches 100%



Thank you

