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MEMORANDUM

To: Jay Liao, Refuse Rates Administrator – City and County of San Francisco
From: Rick Simonson, Senior Vice President – HF&H Consultants
Dave Hilton, Senior Project Manager – HF&H Consultants
Date: June 8, 2023
Subject: Review of Recology's Rate Change Request for FY 2024 - 2025

At your request, we have reviewed a number of comparable jurisdictions to be used as a benchmark to the rate change request submission (Submission) submitted by Recology San Francisco (Recology), for the City and County of San Francisco (City). Based on our review of the rates and profit margins of comparable jurisdictions, we believe Recology's request to be within a reasonable range based on the benchmarks found.

Scope of Work

We performed the following procedures as part of our review:

- Selected comparable jurisdictions with assistance from Refuse Rate Administrator staff based on jurisdiction size, population, or geographic location.
- Gathered rate and demographic information about the selected comparable jurisdictions.
- Compiled profit margin or operating ratio data for a number of jurisdictions where this information was readily available.

Limitations

The benchmark data used was based on the selected jurisdictions with the most reliable and obtainable data for this analysis. There are many factors around rate creation and this analysis does not break down rates to account for headcount per route, route hours, eligible, vs ineligible for profit costs, disposal and processing or collection or overhead portions of the rate. Each jurisdiction has its own unique set of services and complications that may allow for higher or lower rates. This review accounted only for rate categories described in this analysis and other jurisdictions or other rate categories that may have had a different outcome when compared to San Francisco's rates.

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Findings

Rate Comparisons

HF&H reviewed residential and commercial rate information for San Francisco and other jurisdictions and found the following:

Table 1 – Residential Rate Comparisons

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	\$ 36.94		\$ 0.28

Service rates can vary greatly from community to community based on the provision of service, types of programs, service density, frequency and size of standard collection, diversion incentives, customer makeup, included fees, and many other contributing factors. With the exception of San Diego (where service is not paid for directly through customer rates), the minimum charge available to customers in the surveyed jurisdictions ranged from a low of \$22.94 to a high of \$55.03. Currently the rate San Francisco customers pay amounts to \$46.87, about 30% higher than the average of \$36.94.

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Refuse Rate Administrator staff also requested that we look at this rate information on a per-gallon cost equivalent. Due to Recology's offering to San Francisco of a relatively small 80 gallons of service for the minimum charge the per gallon cost appears very high when compared to other jurisdictions; coming in at 59 cents compared to an average of 28 cents. It should be noted, however, that this appears to be a result of the gallons offered, and not necessarily of a high price, as seen when looking at Oakland, and Castro Valley. The other jurisdictions with under 100 gallons offered, which also have much higher per gallon costs. While this per gallon cost metric seems alarming, it is not the best metric for service cost, as it does not account for diversion incentives, standard level of service, or other factors which play a role in the cost that goes into a rate.

HF&H also reviewed jurisdictions for commercial service level rates as seen in the table below.

Table 2 – Commercial Rate Comparisons

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	\$ 164.48	\$ 182.99	\$ 0.91

When comparing the minimum cost of 3-cart commercial service, San Francisco customers receive a lower than average price based on the jurisdictions surveyed with a rate of \$52.60 as compared to the average of \$81.89. Unlike the residential rate comparison, this holds true when accounting for the cost per gallon of service provided at that price.

HF&H also looked at the bin rates for San Francisco and these jurisdictions and this presented a different finding. San Francisco solid waste bin service was found to be much more expensive than the average at

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\$282.63 compared to the average of \$182.99. It should be noted, however, that this is Recology's posted rate, and does not include the diversion discount which is applied to many customer's bills.

Profitability Comparisons

HF&H Also reviewed Recology's proposed Operating Ratio of 91% (a Profit Margin of 9.89%) to other jurisdictions to assess the reasonableness of the request. The Results of the survey can be seen in Table 3 Below.

Table 3 – Profit Margin Comparisons

Jurisdiction	Contractor	Operating Ratio	Profitability Ratio
San Luis Obispo City	San Luis Garbage Company	93.00%	7.53%
Sunnyvale	Specialty	92.25%	8.40%
Arroyo Grande	South County Sanitary Service	92.00%	8.70%
Atascadero	U.S.A Waste of California	92.00%	8.70%
Grover Beach	South County Sanitary Service	92.00%	8.70%
Morro Bay	Morro Bay Garbage Services, Inc	92.00%	8.70%
Pismo Beach	South County Sanitary Service	92.00%	8.70%
San Luis Obispo County	South County Sanitary Service	92.00%	8.70%
Stanislaus County Area #3	Multiple	90.90%	10.01%
Marin County	Marin Sanitary Service	90.50%	10.50%
San Rafael	Marin Sanitary Service	90.50%	10.50%
San Anselmo	Marin Sanitary Service	90.50%	10.50%
SBWMA	Recology	90.50%	10.50%
Newark	Republic	90.32%	10.72%
Pleasanton	Pleasanton Garbage Service	90.00%	11.11%
Livermore	Livermore Sanitation	90.00%	11.11%
Pacifica	Recology	90.00%	11.11%
Alameda	ACI	90.00%	11.11%
Del Rey Oaks	GreenWaste Recovery	89.30%	11.98%
Marina	GreenWaste Recovery	89.30%	11.98%
Pacific Grove	GreenWaste Recovery	89.30%	11.98%
Pebble Beach	GreenWaste Recovery	89.30%	11.98%
Sand City	GreenWaste Recovery	89.30%	11.98%
Seaside	GreenWaste Recovery	89.30%	11.98%
Castro Valley	ACI	89.00%	12.36%
San Ramon	ACI	89.00%	12.36%
Stockton (WM)	Waste Management	87.11%	14.80%
Central Contra Costa SWA	Republic	87.00%	14.94%
Milpitas	Garden City Sanitation	87.00%	14.94%
Daly City	Republic	86.76%	15.26%
Union City	Republic	86.12%	16.12%
Carmel	GreenWaste Recovery	85.76%	16.60%
San Jose (Commercial)	Republic	85.29%	17.25%
Stockton (REP)	Republic	85.00%	17.65%
West Valley SWMA	Waste Connections	84.70%	18.06%
Santa Cruz County	GreenWaste Recovery	83.87%	19.23%
Cupertino	Recology	84.05%	18.97%
Carlsbad	Republic	82.58%	21.10%
Oakland (CWS)*	CWS	73.61%	35.85%

*Estimate

Our review of other municipal contracts showed that there is a wide range of profit margins approved with municipal contracts, from as low as 7.53% to a high of 21.1% (the Oakland figure is an estimate based

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on our calculations, not a stated amount from financials or a franchise agreement). This puts Recology's request of 9.89% in the lower end of the surveyed jurisdictions. In addition, the list includes three jurisdictions for which Recology provides collection services and their recently renegotiated operating ratios/profit margins, the SBWMA (an 11-member Joint Powers Authority in San Mateo County) at 10.5%, the City of Cupertino at 18.97%, and the City of Pacifica at 11.11%. These profit margins were negotiated in 2020, 2020, and 2022, respectively. The average profit margins for these three Recology service areas is 13.52%, putting Recology's requested 9.89% profit margin lower than recent negotiations with other Bay Area jurisdictions.

Overhead Allocation

Recology has a corporate overhead cost included in San Francisco's rate basis. Recology claims that this cost is an amount that was allocated to San Francisco and other jurisdictions it serves, based on each jurisdiction's revenue. While this method of allocating overhead costs enables Recology to share the cost burden across jurisdictions in a manner which impacts each jurisdiction's rates at the lowest percentage as a whole, it is unlikely that this is an accurate measure of overhead costs required to serve each jurisdiction and potentially leads to larger jurisdictions subsidizing costs for smaller jurisdictions. The revenue received from a jurisdiction has little to do with overhead requirements for the jurisdiction in question; simply because a rate is higher does not mean that overhead costs are greater. Number of accounts, volume of service provided, tonnage, number of routes or route hours being used as the allocation basis all may lead to a lower cost attribution to San Francisco rates.

Recommendation

After reviewing Recology's Submission, we have found that the rates fall within a reasonable range of similar jurisdictions and that the profit margin is reasonable. We recommend that in future years the City obtain additional information from Recology to better understand what the operating metrics are for Recology in order to better understand the basis of the costs that go into the rates.

These metrics should include at a minimum:

- Number of accounts by line of business;
- Containers in service by line of business;
- Set-out rates by line of business;
- Routes by line of business;
- Route hours by line of business;
- Route labor hours by line of business;
- Vehicles by line of business; and,

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- Route, maintenance, and overhead Personnel Full Time Equivalents

These and additional metrics are provided by Recology in other jurisdictions which they service. Recology should be able to gather and provide this information to San Francisco on an annual basis in order for Refuse Rate Administrator staff to better understand the cost basis of Recology's request for a rate adjustment.