Rate Change Request

Refuse Rates Board Hearing #2

June 12, 2023
Rate Proposal Summary
• Even after proposed increases, residential rates are below nearby comparable cities

<table>
<thead>
<tr>
<th></th>
<th>Current monthly residential rate</th>
<th>RY 2024 proposed residential rate</th>
<th>RY 2025 proposed residential rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recology</td>
<td>RRA</td>
<td>Recology</td>
</tr>
<tr>
<td>San Jose</td>
<td>$55.24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oakland</td>
<td>$54.69</td>
<td></td>
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<tr>
<td>San Francisco</td>
<td>$46.87</td>
<td>$48.70</td>
<td>$46.87</td>
</tr>
</tbody>
</table>
• Operating Ratio in San Francisco is reasonable in comparison to other California jurisdictions
  • RRA’s “profitability ratio” for San Francisco below other California cities

• Profit margin on consolidated rate allowed expenses is 5.9%

• ESOP does NOT result in additional profits – cannot consider Recology’s tax savings without considering cost of ESOP
Proposed Items with Rate Impacts
• **Actuarial** funding status projection with $12M annual contribution for 5 yrs

<table>
<thead>
<tr>
<th>YE26 (3 years)</th>
<th>YE28 (5 years)</th>
<th>YE32 (long-term)</th>
</tr>
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<tbody>
<tr>
<td>98%</td>
<td>100%</td>
<td>98%</td>
</tr>
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</table>

• SF Companies’ share: $11.3M in RY 2024 and $11.4M in RY 2025

• Long-term rate funding required - must consider ERISA funding obligations

• Two funding triggers proposed
  - (1) funding status falls below 98% after reaching 100%
  - (2) required cash contributions under ERISA regulations

• If either trigger occurs, rate funding should increase to cover shortfall
• RRA inflation rate proposal based on revised Controller’s Office estimates

• Revenue growth assumption based on City’s projected business tax growth of 5.0% in RY 2024 and 4.1% in RY 2025
  • Used weighted average 2% revenue growth assumption across all revenue

• Recology’s revenue growth projections highly uncertain given current retail closures, tech layoffs, investor pessimism, and office vacancy rates

### Inflation & Growth Assumptions

<table>
<thead>
<tr>
<th></th>
<th>RY 2024</th>
<th>RY 2025</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Recology</td>
<td>RRA</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>3.68%</td>
<td>3.44%</td>
</tr>
</tbody>
</table>
• Level of corporate allocations not a finding of Controller’s Office 2022 Public Integrity Review

• Allocations based on net revenue – industry standard
  • For RSF, only on third-party revenue (nominal allocation)

• The RRA provided no basis for a 5% cut to corporate allocations

• No embedded profit earned on corporate allocations

• Technology vs. general corporate expenses
• RRA proposes a Programmatic Reserve to pay for service requests from City that are not included in rate order

• Guardrails required to limit Reserve use to incidental, small-dollar requests
  • Not intended for services normally billed to a customer, including City
  • Recology to fund in monthly installments equal to 0.2% of actual RSS / RGG net revenue retained
  • RRA required to approve service request and estimated cost
  • Service requests not to exceed one rate year or extend beyond RY 2025
  • Reserve balance cannot fall below 0
  • Balance must be sufficient for Recology to withdraw full cost plus OR
  • Unused balance at rate year end rolled into separate Capital Expenditure Fund
Proposed Items without Rate Impacts
• 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

• RRA argues for 100% adjustment for certain items

• Balancing Account should operate fairly – equal treatment in both directions
Annual Rate Adjustment

• Annual rate adjustment for RY 2026 and beyond to provide backstop in the event next rate cycle delayed

• COLA would 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

• Balancing account adjustments part of annual rate adjustment
Service Level Agreements

- Abandoned Materials Collection
  - Within 4 hours on weekdays / 8 hours on weekends
  - Caps: 310 notices per day / 113,282 notices per year

- Abandoned Materials Proactive Sweeps
  - Bayview, Zone K (Chinatown, Tenderloin), Cardboard

- Public Receptacles
  - Within 2 hours of receiving notice that receptacle full
  - Caps: 120 requests per day / 43,800 requests per year
  - Repair: within 72 hours (M – F)

- Public Works Street Sweeping and Abandoned Waste
  - Limit of 21,072 tons of street sweeping and abandoned waste included for disposal in rate submission
Reporting Requirements

• Audited financial statements and rate reports distinct
  • Audited financial statements governed by GAAP; rate reports are not

• Agreed Upon Procedures reports can link annual rate reports and audited financial statements

• Additional reporting beyond the reporting included in the rates may require funds from Programmatic Reserve
Thank you