



# Rate Change Request

Refuse Rates Board Hearing #2

June 12, 2023



# Rate Proposal Summary

# Residential Rate Market Comparison

- Even after proposed increases, residential rates are below nearby comparable cities

	Current monthly residential rate	RY 2024 proposed residential rate		RY 2025 proposed residential rate	
		Recology	RRA	Recology	RRA
San Jose	\$55.24				
Oakland	\$54.69				
<b>San Francisco</b>	<b>\$46.87</b>	<b>\$48.70</b>	<b>\$46.87</b>	<b>\$49.77</b>	<b>\$48.71</b>

# Operating Ratio & Profit Margin

- 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

# Pension

- Actuarial funding status projection with \$12M annual contribution for 5 yrs

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

- 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

# Inflation & Growth Assumptions

	RY 2024		RY 2025	
	Recology	RRA	Recology	RRA
<b>Inflation rate</b>	3.68%	3.44%	3.05%	2.89%

- 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

# Corporate Allocations

- 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



# Programmatic Reserve

- 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**

# 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
- 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

