Rate Change Request

Refuse Rates Board Hearing #3

June 26, 2023
Cost Control Mechanisms

• Major cost control mechanisms in this Rate Order, each with distinct purpose

  • Programmatic Reserve
    • Fund to pay for service requests outside of rate order
    • Controls annual costs of these service requests
    • Forward-looking

  • “Elective” Expenses
    • RRA review of variances in costs submitted during rate process
    • Designed to incentivize cost control if balancing account adjusted at 100%
    • Backward-looking

• Balancing account to regulate profit
  • Caps profit at approved level if adjusted at 100%
Cost Control Mechanisms

- **Pre-authorization of costs for future additional service**
- **Programmatic Reserve**
- **Balancing Account**
  - Holds profit at authorized level
- **“Elective” Expenses**
  - RRA review of expense variances
• RRA proposes a Programmatic Reserve to pay for service requests from City that are not included in rate order

• Controls costs for services outside rate order by capping annual funding

• Funding amount should be tied to revenue, not corporate allocations

• Recology proposes funding as percentage of actual collections net revenue retained
“Elective” Expenses

- Response to concerns on incentivizing cost control if balancing account adjusted at 100%

- Allows RRA to review “elective” expenses and determine exclusion in target profit calculation used to adjust balancing account

- Variance analysis comparing actual expenses to approved projected expenses

- Carve-outs for cost changes due to changes in volumes, fuel, etc.

- Annual line-item materiality threshold of $500,000
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 profit variance

A different adjustment percentage could allow significant variances

RRA argues for 100% adjustment for certain items (e.g., pension)

Impact of balancing account on rate volatility depends on multiple factors
Pension

- **Actuarial** funding status projection with $17M annual contribution for 3 years
  
<table>
<thead>
<tr>
<th>YE26 (3 years)</th>
<th>YE28 (5 years)</th>
<th>YE32 (long-term)</th>
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<tbody>
<tr>
<td>100%</td>
<td>99%</td>
<td>97%</td>
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- SF Companies’ share: ~$16M in each rate year
- 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
• 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

• Including COLA mechanism in current rate order provides clarity
Weekend Clean-up Events

- Supports proper disposal and reduces material left in the public right of way
  - Complements BIR, which targets larger items
  - 22 events across the City each year (2 per district)
  - Material collected at Weekend Clean-ups is subsequently sorted to increase recovery
  - Assumes a third-party will participate in reuse / e-waste component
  - Estimated annual cost = $608K

- Alternative “3-bin” and reuse events
  - Source-separated disposal increases logistical complexity
  - Additional labor and other costs
  - Unclear if possible in each district due to additional space required
  - Assumes a third-party will participate in reuse / e-waste component
  - Estimated annual cost = $850K
• Replace 6 existing cameras with 6 higher resolution cameras
• 1 additional FTE to evaluate photos, manage data, track impacts, and manage warnings
• Estimated annual cost = $200K
• Estimated additional revenue from contamination fees:

<table>
<thead>
<tr>
<th>Additional Contamination Revenue Estimate</th>
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<tr>
<td>Commercial customers</td>
<td>15,538</td>
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<tr>
<td>Percent of commercial customers impacted</td>
<td>2%</td>
</tr>
<tr>
<td>Additional accounts identified</td>
<td>311</td>
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<tr>
<td>Average contamination revenue per customer with contamination per month</td>
<td>$55</td>
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<tr>
<td>Est. monthly revenue</td>
<td>$17,092</td>
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<tr>
<td>Est. annual revenue</td>
<td>$205,102</td>
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</tbody>
</table>
• Electric trommel purchase in lieu of renting diesel-powered trommel

• Diesel-powered trommel not permitted under Air District regulations

• Lower cost than 2-year rental cost

• Estimated project cost:
  • Purchase: $328K
  • Electrification: $37K
  • Pollution offset credits: $150K
  • Total: $515K

• Annual cost: $74K in RY 2024 / $59K in RY 2025
Zero Waste Capital Reserve

- Support concept of a capital reserve fund
- Significant capital expenditures likely in coming years
- Up to $100M may be necessary in San Francisco
Thank you