

REFUSE RATES STATUS UPDATE

CAPITAL PLANNING, COST ALLOCATION, AND PRACTICES IN RATE
REGULATION AND OVERSIGHT

City & County of San Francisco

Office of the Controller,
Refuse Rate Board

Rob Hilton
HF&H CONSULTANTS
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PURPOSE



1. Capital Planning

- Large Capital Projects (longer-term investments)
- Program Investments (nearer term modifications)



2. Cost Allocation

- Understanding of Recology's costs



3. Common Practices

- Rate regulation and general oversight
- Options for specific funding areas



4. SB 54

- Overview of The Plastic Packaging Producer Responsibility Act (SB 54)

CAPITAL PLANNING – CURRENT STATUS

Complete

- ✓ Conducted Context Mapping
 - ✓ Met individually with the Rate Administrator, the City Administrator's Office, DPW, SF Environment, and Recology
 - ✓ Met collectively with the entities above
- ✓ Grouped the Funding Requests by Topic
- ✓ Developed an Evaluation Process to Assess the Funding Requests

Pending

- Apply Criteria to Evaluate Relative Priorities
- Identify Planning-Level Costs/Timing; Estimate Reserve Needs

Future

- Develop Engineering-Level Cost/Timing to Implement Projects

CAPITAL PLANNING – CONTEXT MAP

● SOCIAL TRENDS

- Focus on public transparency in rate setting. Prop F impacts.
- Environmental justice: rates, illegal dumping.

- Concern over the appearance of a monopoly.
- Focus on enforcement in addition to education & outreach.

- C&D: construction slowdown, but new housing planned and downtown conversion.
- Equity: different neighborhoods have different needs and challenges.

- Post-COVID protocols, economic impact.
- Support for union labor, local hiring requirement.
- Past rate adjustments have not faced opposition.

● POLITICAL FACTORS

- Strong political support for Zero Waste, clean streets, and transparency.
- Ongoing interest from the Board of Supervisors.
- Expected budget cuts: ROI considerations for zero waste gains.
- Trend towards punitive enforcement.
- Election year considerations.

● ECONOMIC CLIMATE

- Which services and programs should be included in the rates?
- Commercial revenue in decline, empty offices, dramatically lower food scraps tonnage.
- Increase cost and demand for compost processing.
- Labor costs are rising.
- Increased costs for City.
- Pro-business climate to combat the doom-loop.
- Rate stability within Zero Waste goals.
- High interest rates, less state/federal financial support.

● LEGAL TRENDS

- Prop 218 rate regulations.
- CARB ZEV requirements (hydrogen and/or electric vehicles).
- Climate Action Plan with Zero Waste goals.
- Refuse Separation Ordinance and zero waste facilitators for top 50 generators.
- Codified Zero Waste with 2030 targets: reduce disposal by 50% from a 2015 baseline
- SB 54 and producer responsibility trends.
- PFAS litigation and regulation (disposal organics facilities).

● CUSTOMER NEEDS

Ratepayers

- Primary concerns are responsive customer service.
- Small apartment owner are a vocal stakeholder group.
- HHW, U-Waste, E-Waste, extended hours
- Increased recyclability of hard-to-recycle materials like film plastic and textiles.

City of San Francisco

- How much do we want to spend to stay on the cutting edge of Zero Waste?
- City public litter cans servicing and replacement.
- Reduce use of the General Fund.
- Reporting technology, IT systems and security.
- DPW street teams and enforcement of illegal dumping.

● TECHNOLOGY FACTORS

- Waste processing tech improvements.
- Recology's IT infrastructure, security, and customer service systems.

- Onboard truck cameras for contamination monitoring, service improvements.
- Public litter can sensors tied to 311 and Power BI.
- De-packaging machine for organics contamination.
- AI: identifying contamination, customer service items, product identification.

● UNCERTAINTIES

- Pier 96 long-term viability. Value of public/private ownership.
- Tunnel Avenue site optimization.
- ZEV fleet vehicles.
- SB 54 impacts on City and Ratepayers.
- Driver safety and route minimums.
- Flow of communication between Recology, SFE, DPW, Rate Admin.
- Commodities market for recyclables and processing costs for compost.

CAPITAL PLANNING – FUNDING REQUESTS RELATIVELY HIGHER COST



TRASH PROCESSING



RECYCLABLES
PROCESSING



C&D PROCESSING



TUNNEL AVE PARKING,
MAINTENANCE



ZEV TRANSITION

CAPITAL PLANNING – FUNDING REQUESTS RELATIVELY LOWER COST



CONTAMINATION
MONITORING



ORGANICS
PROCESSING



IT
UPGRADES

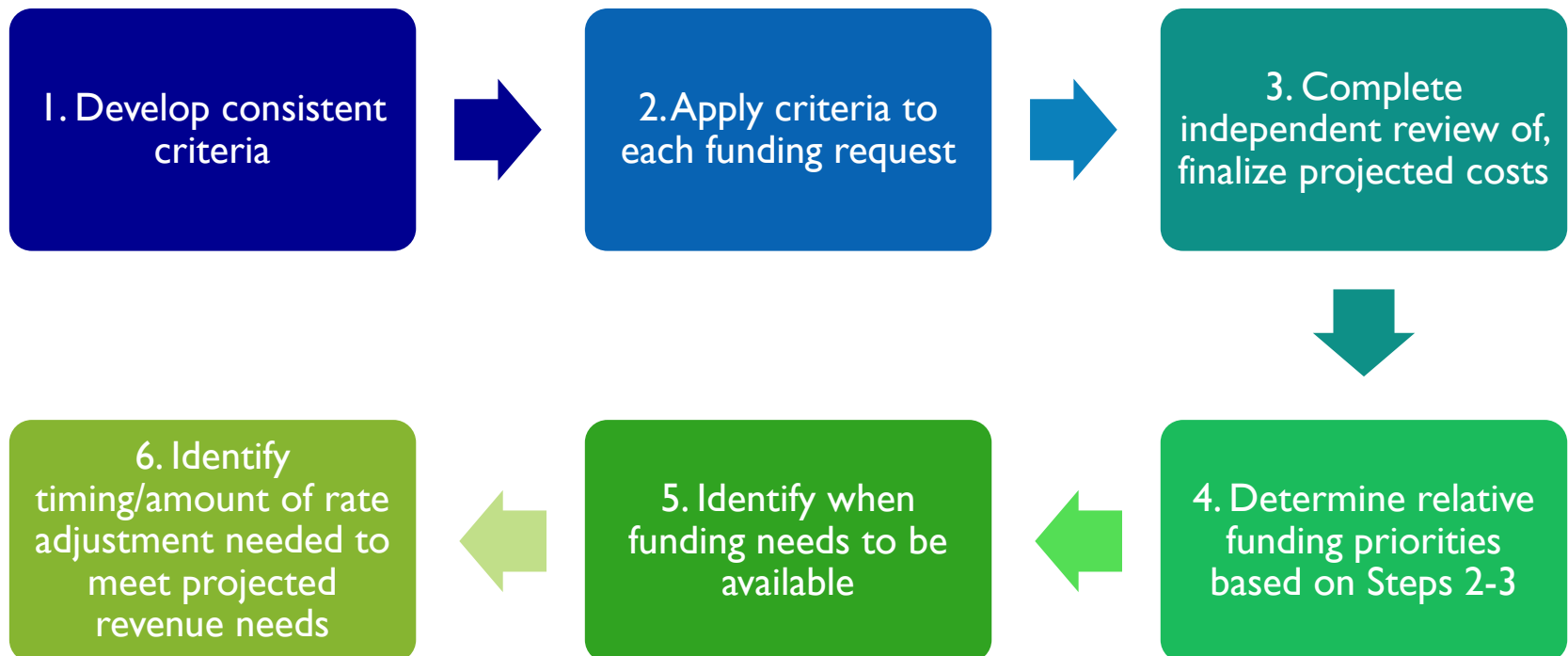


WASTE
CHARACTERIZATIONS

CAPITAL PLANNING – EVALUATION PROCESS

Given a wide range of funding requests, how does the Rate Board decide what to fund and at what level?

Key Steps:



CAPITAL PLANNING – EVALUATION CRITERIA

Is the request a priority relative to other funding needs?

City Goals, Regulatory Compliance

Is the request cost-effective as proposed?

Cost Effectiveness

Can progress be tracked, and funding adjusted over time if necessary?

Accountability, Adaptability

What is the ratepayer impact?

Rate Impacts, Rate Volatility

What is the level of necessary oversight?

Administrative Burden

Cost Ranges and Timing

- Period 1: Years 1-3 (2025-2027)
- Period 2: Years 4-6 (2027-2030)
- Period 3: Years 7-10 (2030-2034)

COST ALLOCATION

- Review of Cost Allocation Methodologies
 - Commercial vs Residential Cost Allocation
 - Route & Labor Costs Review
 - Tonnage Review
 - Subscription Based Allocation
- Rate vs Non-Rate Cost Allocations
 - Review Existing/Proposed Methodology from Recology
 - Perform Analysis on Alternative Approaches
 - Subscription Based
 - Customer Count
 - Volume of Service
 - Lifts/FTE Routes
 - Revenue



COST ALLOCATION – SAMPLE APPROACH

Cost Adjustment Categories	Collection Expenses		Residential	Apartment	Commercial	City Cans
	(To be Allocated)	Allocation Factor				
Salaries and Wages	\$93,463,579	Lifts	\$60,310,681	\$12,104,303	\$17,394,028	\$3,654,567
Payroll Taxes	\$6,579,842	Lifts	\$4,245,876	\$852,144	\$1,224,541	\$257,282
Pension and 401 (k) - Pension is cash basis in accounting	\$16,216,910	Lifts	\$10,464,535	\$2,100,223	\$3,018,046	\$634,106
Health Insurance	\$24,464,336	Lifts	\$15,786,479	\$3,168,333	\$4,552,932	\$956,592
Workers' Compensation	\$9,618,109	Lifts	\$6,206,425	\$1,245,624	\$1,789,977	\$376,083
Corporate Allocation	\$13,169,013	Accounts	\$8,962,052	\$1,196,617	\$2,315,209	\$695,134
Environmental Compliance	\$363,346	Accounts	\$247,272	\$33,016	\$63,879	\$19,179
Bad Debt	\$555,172	Volume	\$234,263	\$107,365	\$202,107	\$11,437
O/S Billing Services	\$370,767	Volume	\$156,450	\$71,703	\$134,976	\$7,638
Office	\$302,051	Accounts	\$205,558	\$27,446	\$53,103	\$15,944
Postage	\$30,757	Accounts	\$20,932	\$2,795	\$5,407	\$1,624
Professional Services	\$1,434,553	Accounts	\$976,272	\$130,352	\$252,205	\$75,724
Repairs & Maintenance	\$1,991,948	Lifts	\$1,285,375	\$257,974	\$370,711	\$77,888
Security & Janitorial	\$786,538	Volume	\$331,891	\$152,110	\$286,335	\$16,203
Taxes	\$4,480,996	Volume	\$1,890,820	\$866,585	\$1,631,281	\$92,309
Telephone	\$570,525	Accounts	\$388,265	\$51,841	\$100,302	\$30,115
Building & Facility Repair	\$322,871	Accounts	\$219,727	\$29,338	\$56,763	\$17,043
Depreciation	\$1,121,437	Lifts	\$723,647	\$145,235	\$208,705	\$43,850

COMMON PRACTICE – KEY TOPICS

Identifying Common Practices for Broad Regulatory Issues



Rate
regulation

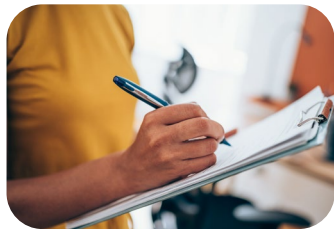


General
oversight

Providing Options for Specific Issues



Zero emission
fleet



Contamination
monitoring



Apartment rate
structuring



Trash
processing



C&D regulation

COMMON PRACTICE – RATE REGULATION

“Solid waste rate regulation” is the process of setting and adjusting customer rates for solid waste, recyclable materials, organic materials, and construction and demolition material services in a manner that meets City goals and objectives, is equitable and fair to ratepayers, provides fair compensation to service provider(s), and allows rate impacts associated with or resulting from unanticipated events to be addressed.

- **Rate regulation occurs:**
 - In regulated and open markets
 - In exclusive and nonexclusive service settings
 - In private and municipally provided service settings
 - Using a variety of mechanisms

COMMON PRACTICE – RATE REGULATION

Key Prerequisites to Rate Setting

1. Disaggregate costs
2. Identify performance metrics
3. Allocate costs using the metrics
4. Benchmark costs

Sampling of Key Principles for Managing and Adjusting Rates

1. Specify allowable costs
2. Use applicable indices
3. Do not adjust fixed costs
4. Use mechanisms to control maximum annual increases
5. Used a defined process to address changes in law, other unanticipated events

COMMON PRACTICE – GENERAL OVERSIGHT



Overview

- Strong public oversight is paramount for exclusive service provided by a private entity.
- Oversight is typically documented through governing ordinances, bilateral contracts and/or rate manuals.



Future Steps

- The City's contract with Recology for landfill services will soon expire. SFE is conducting a procurement to select a future service contractor.
- A logical next step is to extend the contract model to other post-collection services, such as organics and recyclables processing.

A woman with curly hair, wearing a white t-shirt, is shown in profile, filling a clear glass jar with a black funnel. She is standing in a bulk food store, with various jars and containers visible on shelves in the background. The image has a green tint and a blue vertical bar on the left side.

SB 54

PLASTIC POLLUTION AND PACKAGING PRODUCER RESPONSIBILITY ACT (ALLEN, 2022)

MATERIALS COVERED BY SB 54



Single-use packaging

plastic, paper, paperboard, metal, glass, multi-layer materials, etc.



Plastic single-use food ware

Cups, lids, straws, cutlery, stirrers, lidded containers, trays, plates, clamshells, food wrap, wrappers

SB 54 - KEY GOALS

- ✓ Reduce the volume of packaging generated/disposed
- ✓ Increase recycling
- ✓ Shift packaging pollution responsibility to producers
- ✓ Shift costs away from local jurisdictions/ratepayers
- ✓ Provide clarity and consistency for consumers
- ✓ Stimulate investment in reuse and refill systems
- ✓ Fund clean up efforts in disadvantaged communities



IN CALIFORNIA, BY 2032:



100%
of single-use
packaging and plastic
single-use food ware
recyclable or
compostable



65%
of single-use plastic
packaging and food
ware recycled



25%
source reduction
of single-use plastic
packaging and food
ware
(by weight and unit)




Earlier recycling rate requirement for expanded polystyrene foodware
(25% by 2025 → 65% by 2032)



COVERED MATERIALS CATEGORY LIST

Jurisdictions are required to collect materials designated recyclable or compostable on the Covered Materials Category (CMC) list developed by CalRecycle.



SB 54 acknowledges explicitly that “Local jurisdictions are the backbone of the solid waste management and recycling efforts in California,” and that the intent of SB 54 is to, among other goals, “shift the burden of costs to collect, process, and recycle materials from the local jurisdictions to the producers of covered material.”

DRAFT REGULATIONS QUESTIONS / FOCUSES

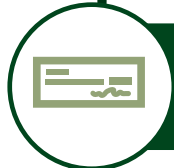
JURISDICTIONS'
REGULATORY
FOCUS AREAS



Type of covered costs



Scope of covered costs



Payment mechanism



Transparency

HOW TO ENGAGE

Success of SB 54 depends on everyone's voices being heard!

Stay Informed

- Subscribe to CalRecycle SB 54 Listserv
- Attend Presentations

Engage in Rulemaking Process

- Attend Workshops
- Submit Comments

Collaborate with Partners for Support

- Join Working Groups
- Contact your Advisory Board Representative

Discuss Early and Often

- Document Existing Costs
- Identify Related Program/Policies

A photograph of the San Francisco City Hall building, featuring a large green dome with a golden spire. The building is surrounded by a green lawn and a walkway with trees. The sky is blue with some clouds. A semi-transparent green box is overlaid on the left side of the image, containing text.

THANK YOU

QUESTIONS & DISCUSSION

Rob Hilton

President

rchilton@hfh-consultants.com

(925) 977-6959

