

Request for Changes to Refuse Rates Narrative Summary



January 3, 2025

**Recology Sunset Scavenger
Recology Golden Gate
Recology San Francisco**

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EXECUTIVE SUMMARY

This refuse rate change application proposes rate increases that will allow the SF Recology Companies to maintain and improve services that help keep San Francisco clean and work towards achieving the City's climate action goals. This rate application also includes the investments needed to sustain and enhance San Francisco's world-class waste diversion programs.

We have targeted our programs to meet the needs of our customers, San Francisco Public Works, and the San Francisco Environment Department (SFE). And, as part of our ongoing commitment to increased transparency in rate-setting and rate-reporting, we look forward to continuing our work with the City Controller's Office to further enhance our public disclosures.

The SF Recology Companies are committed to our ongoing partnership with the City to achieve its service and sustainability goals. This application contains proposals for additional investments designed to enhance service, reduce waste, increase diversion from landfills, and keep the City clean, including:

- **Investment in Trash Processing.** The SF Recology Companies are proposing a contingent rate schedule that would fund the cost of creating trash processing capacity in San Francisco to recover organics and recyclables from the trash stream.
- **Additional Abandoned Materials Routes.** In response to a request from SF Public Works, the SF Collection Companies have included three new routes and three additional employees to extend abandoned material collections coverage in the afternoons.
- **Reducing Overloaded Containers.** The SF Recology Companies are proposing to install onboard cameras to electronically identify overloaded commercial containers, to create opportunities for rightsizing and improve safety, cleanliness and fairness for ratepayers.
- **Improved Contamination Removal.** Building on its experience in the current rate cycle, RSF is proposing additional investment in more effective organics pre-processing equipment that will reduce contamination in the organics stream and increase organics recovery.
- **Creation of a Capital Reserve Fund.** The SF Recology Companies are proposing to create a new Capital Reserve Fund to begin accumulating resources needed to comply with the Advanced Clean Fleets (ACF) regulation and future infrastructure needs.

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- **Increased Outreach.** The SF Recology Companies are proposing to increase engagement with Apartment customers, especially regarding organic materials and bulky item recycling, to help improve organics diversion and reduce abandoned materials from large multi-family dwellings.
- **Compost Giveaway.** The SF Recology Companies are proposing to re-establish the annual compost giveaway, a popular program that offers up to 5 gallons of free compost for San Francisco residents.

At the same time, rates have not kept with inflationary increases in costs in recent years. Current refuse collection rates, which will remain in effect through September 30, 2025, are **only 0.3% higher** than the rates that took effect on January 1, 2023. Rate adjustments are needed to bring rates into line with the cost of doing business, expand services in a cost-effective way, and fund necessary capital investments. To this end, the SF Recology Companies are proposing an average increase in collection rates of 18.18% in RY 2026, 7.53% in RY 2027 and 3.86% in RY 2028. Individual customer rate increases may vary depending on level and type of service. The SF Recology Companies are also proposing to increase the tipping fee at RSF by 10.07% in RY 2026, 6.27% in RY 2027 and 5.74% in RY 2028. Even after the proposed 18.18% increase in collection rates in RY 2026, rates for basic 3-bin residential service in San Francisco will still be **over 8% lower** than the current rates for equivalent service in San Jose and Oakland (\$55.55 in San Francisco, compared to \$60.57 in the other cities).

It is also important to note that, of the 18.18% proposed increase in RY 2026 collection rates, 12.46% results from adjustments to correct for under-projections in the previous rate process, and to cover increased governmental fees and taxes that the SF Recology Companies are required to pay. Specifically, 9.42% of the increase is attributable to economic growth being lower, and payroll and payroll tax expense being higher, than were projected in the previous rate process. Both these misalignments resulted in rates for RY 2024 and RY 2025 being lower than necessary to adequately cover costs. As a result, a larger-than-usual increase is now needed to bring rates back up to a sustainable level.¹ In addition, 2.02% of the increase is attributable to City-requested increases in the Impound Account and an increase in City business taxes. An additional 1.01% of the increase is attributable to Balancing Account adjustments. For more information, see the "Growth Assumption," "Impound Account," and "Balancing Account" sections below.

Recology looks forward to continuing its longstanding service to the people and businesses of San Francisco to achieve our shared goals. We remain committed to

¹ To be clear, the 9.42% does *not* compensate Recology retroactively for revenue shortfalls or higher payroll and related costs experienced in RY 2024 and RY 2025. This is done separately through the Balancing Account mechanism and is reflected in the 1.01% number above. Rather, the 9.42% adjusts the upcoming rates to reflect the lower revenue base and certain payroll costs that were not fully accounted for in the current rates.

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supporting the City's nationally renowned climate action goals and to meeting the City's critical needs through a strong and dedicated partnership.

I. OVERVIEW

A. The SF Recology Companies

Recology envisions a world without waste. We trace our roots to the 1920s, when immigrants to San Francisco performed work few others wanted to do. They collected the City's waste and sorted through it to salvage and resell what they could, pioneering recycling long before the industry had a name.

As the City's priorities changed, the SF Recology Companies – RSS, RGG, and RSF – have adapted their business to meet those needs. They partnered with the City to implement a first-of-its-kind organics program, build a world-class recycling facility, and achieve the highest diversion rate of any major U.S. city. Today, the SF Recology Companies provide comprehensive Recycling, Organics, and Trash collection, processing, and disposal services to approximately 139,000 Residential and 23,000 Commercial and Apartment customers in San Francisco. Annually, the SF Recology Companies collect over 524,000 tons of material in the City.

Recology is one of the only – and by far the largest – 100-percent employee-owned companies in its industry. Recology is committed to paying fair wages to its hardworking employee-owners while charging competitive rates to its customers – all while helping to keep the City's streets clean and achieving our shared climate action goals.

The SF Recology Companies have demonstrated an unmatched ability to provide consistently high-quality service to San Francisco. We are proud of our legacy and look forward to continuing to provide San Francisco with world-class service and sustainability programs.

B. Refuse Collection and Post-Collection Services

Collection

The Collection Companies (RSS and RGG) provide refuse collection services to Residential, Apartment and Commercial customers in San Francisco. The Collection Companies hold the route permits and collection licenses issued under the Refuse Collection and Disposal Ordinance to collect and transport refuse within San Francisco City and County limits.

The Collection Companies also provide collection services intended to help keep the City clean. The services include collection of abandoned materials from established routes, collection of abandoned materials reported through the City's 311 system, collection of material from public refuse receptacles, and support for special events such as parades and festivals.

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Transfer

RSF owns and operates a transfer station at Recology's Tunnel Avenue facility to receive Organics and Trash from the Collection Companies and others. It then transports these materials to composting or disposal facilities using long-haul vehicles. A portion of the mixed organics stream is pre-processed at the facility to remove excess contamination. The Transfer Station also serves the public directly as a drop-off location for, among other things, household hazardous waste, construction and demolition debris (C&D), and general refuse. In addition, a co-located C&D processing facility (the iMRF) processes C&D to recover reusable material.

Recyclables Processing

RSF operates the Pier 96 Materials Recovery Facility (MRF), known as Recycle Central, on property leased from the Port of San Francisco. Most recyclable materials collected in the City are sorted and processed at Recycle Central and from there shipped to end markets. RSF partnered with the City on a program to employ residents from adjacent neighborhoods at Recycle Central.

Organics Processing

Most organic material collected by the Collection Companies consists of mixed food waste and green waste (mixed organics). This material is composted at the Recology Blossom Valley Organics – North facility (BVON) in Vernalis, California. The SF Recology Companies are proposing a tiered tipping fee structure at BVON, creating a lower rate for mixed organics that have been pre-processed at Tunnel Avenue to remove contamination, and a higher rate for unprocessed mixed organics. This change reflects the lower costs BVON incurs to process and compost clean material. A small amount of clean green material (brush) is also sent to Recology's Jepson Prairie Organics facility for composting.

Disposal

Trash collected by the Collection Companies, as well as residue from the processing of recyclables at Recycle Central, is disposed of at the Recology Hay Road Landfill pursuant to the Landfill Disposal Agreement between the City and RSF, which is expected to remain in effect through the period covered by this rate application (RY 2026-RY 2028).

C. Rate Application Process

Over the last two years, several changes were made to the rate regulation process in San Francisco. Most significant was the shift in authority and oversight of the detailed rate setting process from Public Works to the SF Controller's Office. While the Rate Board maintained ultimate responsibility for rate setting, the position of Refuse Rates Administrator (RRA) was established within the Controller's Office, and the RRA assumed responsibility for oversight of rate setting and reporting.

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During the rate review process that took place during 2023, the RRA created forms for rate applications, specified supporting documents, and conducted a series of public meetings. This application is submitted pursuant to newly updated forms and guidelines provided by the RRA for the 2025 rate process. Copies of the guidelines and forms are posted on the RRA's [website](#).

The rate models and submission documents separate collection operations (Recology Sunset Scavenger and Recology Golden Gate) and processing and transfer operations (Recology San Francisco). Rates are set for RSF first and the consequent projected tipping fee is used as a cost of RSS and RGG in setting proposed collection rates. In addition, discussion of specific rate-setting issues is now separated by functional activity (collection or processing).

In this application, the SF Recology Companies seek specific rate adjustments for (1) the rates charged by the Collection Companies to Residential and Apartment ratepayers, and (2) the tipping fee charged by RSF at the Tunnel Avenue and Recycle Central facilities. The rate cycle covered by this application consists of RY 2026, RY 2027 and RY 2028. The application proposes specific rate adjustments for each of these years. The Rate Year (and Recology's fiscal year) both run from October 1-September 30, with RY 2026 beginning on October 1, 2025.

This narrative summary provides a thematic overview of the rate application. More detailed information on the specific assumptions and calculations used to develop this submission is included in the Summary of Assumptions. Additional supporting materials and responses to questions and inquiries will be provided during the review process. The information submitted by the SF Recology Companies follows the guidance contained in the Refuse Rates Change Request Instructions and in the forms published by the San Francisco Controller's Office.

D. Transparency & Accountability

In this rate cycle, the SF Recology Companies will continue to enhance public visibility into their revenues, expenses, and profits, while providing new tools to monitor and manage programs for more effective outcomes. Major initiatives in this area include:

- **New Program-Level Tracking.** To increase transparency, the rate submission, as well as ongoing rate reporting, will be program-focused. For example, program costs will be separated for abandoned material collection, bulky item recycling, servicing of public refuse receptacles, household hazardous waste processing, and Public Recovery and Reuse facility operations, among other programs. This will allow better visibility to program costs by all stakeholders.
- **New Service Level Agreements (SLAs).** The SF Recology Companies have worked with the RRA to develop SLAs for several programs offered by the SF Recology Companies, including collection of abandoned materials, collection

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from public refuse receptacles, and replacement of liners and doors for public refuse receptacles. The SF Recology Companies look forward to working with the RRA in this rate cycle to introduce new SLAs for additional programs as appropriate.

- **Rate Reporting.** The SF Recology Companies will continue to file quarterly and annual rate reports with the RRA, which are publicly posted on the RRA's website. The rate reports cover costs and revenues for regulated services; variances between actual and projected costs; Balancing Account, Impound Account and other fund balances; tonnages received, recovered and disposed; counts of Residential, Apartment and Commercial customers; and other relevant cost and operational data. The SF Recology Companies will also file their audited combined financial statements, together with a reconciliation between the financial statements and the annual rate report.²
- **Dedicated Website.** Recology maintains a [dedicated website](#) for San Francisco ratepayers that contains useful information on the full suite of services offered to customers. The website includes current rates and a calculator that allows Residential and Apartment to see the impact of service changes on their bill, including application of the Diversion Discount for Apartment customers. Customers can also use the website to pay their bill, schedule Bulky Item collections, learn how to properly sort material, download signage, and view educational resources.

E. Proposed Rate Adjustments

The SF Recology Companies seek just and reasonable rates that will address increased costs and flat volume and will fund activities designed to support San Francisco's climate action goals. As the stewards of the programs and services covered by this submission, the Companies aim for the highest positive environmental impact at the lowest cost, reflecting the synergies of an integrated system. The increases requested in this application reflect inflationary cost increases and the lack of recovery from the impacts of the COVID-19 pandemic on our Commercial business, along with the program changes, enhancements, and investments detailed herein.

For RSF, the application seeks a 10.07% increase in the tipping fee for RY 2026, from \$244.44 to \$269.05 per ton, a 5.74% increase in RY 2027 from \$269.05 to \$284.50 per ton, and a 3.43% increase for RY 2028, from \$284.50 to \$294.27. These increases are driven primarily by continued lower tonnage due to the lack of a post-

² Quarterly reports are filed within 60 days after the end of the quarter for the quarters ending December 31, March 31 and June 30. Annual reports are filed by January 31 for the year ending September 30. Audited financial statements are filed within 15 days of issuance. The reconciliation is filed with the financial statements, or (if the annual report has not yet been filed) as soon as practicable thereafter.

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pandemic recovery in business activity, along with proposed investments to improve organics pre-processing.

For the Collection Companies, the rate application proposes average increases in collection rates of 18.18% in RY 2026, 7.53% in RY 2027 and 3.86% in RY 2028. Individual customer rate increases may vary by volume and type of service. These increases would apply to all collection customers covered under this rate-setting process. The changes are net of certain revenue offsets available in RY 2026 and reflect annual amortization of amounts included in the Balancing Accounts, which has the net impact of increasing rates to partially cover shortfalls generated in the current rate cycle. The rates requested for the Collection Companies are primarily inflationary cost adjustments, with increases in labor and related costs, the proposed cost of disposal and processing as well as other cost categories, along with corrections to revenue growth assumptions in the current rates.

F. Growth Assumption

A key reason for the size of the rate increases proposed in this application is the growth assumptions used in the 2023 rate process. The 2023 rate process anticipated an economic recovery in San Francisco, as the City rebounded from the effects of the COVID-19 pandemic. This was expected to drive growth both in collection revenue, as businesses opened and expanded, and in tipping fee revenue, as refuse generation tonnages increased. The collection rates established for RY 2024 and RY 2025 assumed that collection revenue would increase by 2% per year across all customer segments (Residential, Apartment, Commercial). Likewise, the tipping fees established for RY 2024 and RY 2025 assumed that RSF's inbound tonnage would grow by 2% per year.

Unfortunately, the projected growth in collection revenue and tonnage was not realized. The lack of growth means that the SF Recology Companies generated less revenue than was projected. This in turn means that the starting revenue base for the 2025 rate process is lower than it otherwise would have been. Higher-than-usual rate increases are required to make up this revenue shortfall and allow the SF Recology Companies to cover their costs in RY 2026-RY 2028 and generate the allowed profit based on the established 91% operating ratio. The SF Recology Companies are projecting lower growth rates for RY 2026-RY 2028, based on recent experience and economic forecasts. Revenue and tonnage growth for Commercial and debris box customers is projected to be 0.75% in RY 2026, 1.5% in RY 2027, and 2.0% in RY 2028. Revenue and tonnage for Residential and non-debris box Apartment customers is expected to remain flat over RY 2026-2028.

II. PROGRAMS INCLUDED IN PROPOSED RATES

The SF Recology Companies maintain an integrated suite of critical programs and services that help keep San Francisco clean and achieve the City's climate action goals. These programs and services have been developed through dialogue with the City and community to understand the initiatives that best serve their needs.

The core of the collection system in San Francisco is the three-stream collection of Recycling (blue bin), Organics (green bin), and Trash (grey bin) . These services are offered on a subscription basis to three categories of customers: Residential, Apartment, and Commercial. Residential service is generally weekly; Apartment and Commercial service is weekly or more frequently as subscribed by the customer, except that some services are provided on an as-needed basis, triggered by service requests from the customer. In addition, a full array of services complements this collection system to handle specialized material and respond to the City's and ratepayers' needs.

The full list of programs and operations is:

1. **RECYCLING COLLECTION (Blue bin):** Collection of commingled recyclables, including paper, bottles, cans, and hard plastics (e.g., cups, tubs, lids, buckets), from Residential, Apartment, and Commercial customers.
2. **ORGANICS COLLECTION (Green bin):** Collection of food scraps, plant materials, and soiled paper from Residential, Apartment, and Commercial customers.
3. **TRASH COLLECTION (Grey bin):** Collection of non-recyclable and non-organic materials from Residential, Apartment, and Commercial customers.
4. **BULKY ITEM RECYCLING:** Curbside collection and recycling of bulky items is offered to Residential and Apartment customers through scheduled on-call pick-ups. Acceptable items include appliances, electronics, furniture, scrap metal, and wood.
5. **PUBLIC REFUSE RECEPTACLE COLLECTION:** Sometimes referred to as the "city can" program, the Collection Companies collect from over 3,000 City-owned public trash receptacles around the City. Each can is emptied between one and three times per day. Cans emptied more than once per day are emptied outside of regular route service and on demand within two hours of notification by the City. The Companies are expanding weekday and weekend service in response to the dynamic needs of each neighborhood. The

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Companies also replace liners in City-owned public refuse receptacles as needed.

6. **ABANDONED MATERIALS COLLECTION:** The SF Recology Companies collect non-hazardous abandoned materials identified through the City's 311 reporting system or by Recology personnel. The Companies typically respond to abandoned materials requests within four hours.
7. **DISTRICT CLEAN-UP EVENTS:** Special clean-up events will be held at least annually in each of the City's eleven Supervisorial Districts to allow residents to drop off items too big to fit in the regular collection bins. Motor oil, batteries, and fluorescent lamps will also be accepted.
8. **BATTERY RECYCLING:** Residential and Apartment customers place household batteries in orange bins or in bags on top of their black bins. Collectors put the batteries in a special container in the collection truck. Workers at the Tunnel Avenue facility then sort the batteries according to Department of Transportation rules and ship them to battery recycling facilities. The SF Recology Companies are working with SFE to consider updates to this program.
9. **CHRISTMAS TREE RECYCLING:** Christmas trees are collected at the curb during the first two weeks of January, chipped, and composted.
10. **LITTER COLLECTION FROM COMMUNITY BENEFIT DISTRICTS (CBDs):** Certain CBDs collect litter, sweep sidewalks and gutters, and "top off" public refuse receptacles in their areas. The Collection Companies collect eligible material from these activities at no additional charge to the CBDs. The City and the SF Recology Companies have agreed on terms for this program to ensure the service is used only for the intended purpose and that CBDs are treated consistently. CBDs will only be charged if Commercial/Residential refuse or other ineligible material is found in the CBD's material.
11. **EVENT RECYCLING:** The Collection Companies provide Recycling, Organics, and Trash collection services to neighborhood festivals and major functions such as the Chinese New Year Parade and the Pride Parade.
12. **DISPOSAL OF MATERIAL COLLECTED FROM PUBLIC RIGHT OF WAY:** Public Works will be allowed to self-haul certain types of nonhazardous refuse it collects to the Transfer Station and dump it at no charge. This material will consist of street sweepings from Public Works' street sweeping activities; abandoned waste, litter and debris collected from the public right of way as part of Public Works' street cleaning and abandoned waste collection efforts; and green material such as brush and tree trimmings collected from the public right of way by Public Works' Bureau of Urban Forestry. The material must be delivered to the Transfer Station in Public Works' street sweeping vehicles and

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designated Public Works pick-up, bucket, and packer trucks used for these programs.

13. CONSTRUCTION AND DEMOLITION (C&D) DEBRIS RECYCLING: The Recology iMRF, located at the Transfer Station, receives and processes C&D to recover metal, wood, sheetrock, rigid plastic, and other materials. This operation is registered under the City's Construction and Demolition Debris Recovery Ordinance.
14. PUBLIC REUSE AND RECYCLING AREA (PRRA): The Tunnel Avenue facility receives self-haul Recycling, Organics, Trash and reusable items from San Francisco residents and businesses. Material hauled by the public is weighed and processed on a Pfarmigan Sorting line, as needed.
15. HOUSEHOLD HAZARDOUS WASTE DROP-OFF: RSF operates the San Francisco Household Hazardous Waste Collection Facility (HHWCF), where Residential customers can drop off household hazardous wastes (e.g., paint, oil, pesticides, household chemicals) three days per week for safe recycling and disposal. This facility has been open since 1987 and was among the first permanent HHWCFs in the nation.
16. DOOR-TO-DOOR HOUSEHOLD HAZARDOUS WASTE COLLECTION: The Collection Companies collect household hazardous wastes directly from homes using specialized trucks for handling and transporting these materials.
17. HOUSEHOLD HAZARDOUS WASTE RETAIL TAKE-BACK PROGRAM: The Collection Companies use the same specialized trucks to collect paint, fluorescent lights, and household batteries from San Francisco retailers who partner with SFE and volunteer to "take-back" small quantities of these common hazardous wastes from San Francisco residents. Retail "take-back" hazardous wastes are transported to the HHWCF and consolidated and repackaged there for safe recycling and disposal.
18. VERY SMALL QUANTITY GENERATOR PROGRAM: Qualifying small business generators of hazardous waste located in San Francisco may use the HHWCF by appointment for a fee on designated days each month.
19. E-WASTE RECYCLING: Most electronic waste is banned from landfill in California. Computers, monitors, televisions, computer peripherals, and other electronic devices are collected from bulky item recycling appointments and from drop-offs at Tunnel Avenue. The material is then shipped to facilities specializing in recycling specific types of e-waste.
20. SAFE NEEDLE PROGRAM: The San Francisco Safe Needle Disposal Program (SFSNDP) provides San Francisco residents with safe, convenient disposal of home-generated sharps at participating pharmacies throughout the City. Residents can pick up empty sharps containers at participating

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pharmacies, fill them, and return them for disposal as medical waste. The Collection Companies pick up these filled sharps containers.

21. **PERFECTLY GOOD REUSE PROGRAM:** The SF Recology Companies pull items that are in good condition for reuse (e.g., bicycles, furniture, clothing) from loads brought to the PRRA by individuals and small businesses. The reusable items are either donated directly or given to organizations such as St. Vincent de Paul that process them for distribution in thrift stores.
22. **MATTRESS RECYCLING:** Mattresses from residents, hotels, PRRA drop-offs, and designated collection trucks are loaded onto trailers at the Tunnel Avenue facility and transported to a local company specializing in mattress recycling.
23. **TIRE RECYCLING:** Used tires are handled separately at the Tunnel Avenue facility and then taken to a company that shreds and recycles the rubber.
24. **STYROFOAM DROP-OFF:** Residents and businesses can drop off clean expanded polystyrene (EPS) at the PRRA for recycling. RSF operates a special densifier that compacts loose pieces of EPS into cubes, which are recycled into products such as baseboards and moldings.
25. **FILM PLASTIC DROP-OFF:** Residents and businesses drop off clean polyethylene film plastic (e.g., plastic bags) at Recycle Central and the PRRA for recycling. The film plastic is baled and shipped to plastic recycling markets.
26. **SUSTAINABILITY EDUCATION:** The SF Recology Companies provide public education programs to educate San Franciscans on the importance of diversion from landfill and how the City's system works. The pillars of the program are the Artist in Residence (AIR) program and facility tours. The AIR program is a unique art and education program that offers Bay Area artists a four-month residency at the Transfer Station, during which they can create artwork from material scavenged from the PRRA. The artwork is displayed at periodic exhibitions at the Transfer Station that are open to the public. The program encourages people to conserve natural resources and promotes new ways of thinking about art and the environment. Recology also provides educational tours of its Recycle Central and Tunnel Avenue facilities to children and adults. The tours focus on recycling, composting, reuse, and resource conservation.
27. **COMPOST GIVEAWAY:** The SF Recology Companies have long provided free compost to San Francisco residents. The compost is derived from discarded food and garden materials composted by Recology. In recent years, the free compost has been distributed as part of District clean-up events. In this rate application, the Companies aim to increase utilization of this popular program by re-establish a dedicated annual event that takes place at multiple locations across the City and is separately publicized.

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28. **OUTREACH AND EDUCATION.** In collaboration with the City, the SF Recology Companies educate the public on proper sorting techniques, available programs, and the importance of increasing diversion from landfills. The education effort includes presentations, on-site trainings, sorting guides, bin labels, downloadable signage, contamination notices, newsletters, billing inserts, social media campaigns, and online resources.
29. **WASTE AUDITS.** Recology's Waste Zero Specialists provide waste audits to Commercial and Apartment customers, providing individualized recommendations on how to improve diversion and reduce costs. Waste Zero Specialists also act as liaisons to the community, helping to educate school and community groups on diversion services and programs.

The proposed rates assume no significant increase above current levels in utilization of services provided at no charge, such as disposal of Public Works' self-haul material and services provided to CBDs. Any such increase would impact the Balancing Account and could increase the likelihood of a future rate adjustment request.

III. RATE-SETTING METHODOLOGY

A. Rate-Setting Calculation

Collection Companies

Collection rates are based on rate-eligible expenses plus an allowed profit on the profit-eligible portion of those expenses. For some rate-eligible expenses – intercompany disposal and processing costs, licenses, permits and the Impound Account – the Companies earn no profit and simply pass those costs through. The allowed profit on all other costs is calculated using an operating ratio, which is a standard waste industry mechanism used to determine appropriate profit. As in past rate applications, an operating ratio of 91% is used in this application. This operating ratio generates a low profit by industry standards.

Rate-eligible expenses on which profit may be earned are divided by the 91% operating ratio to produce a revenue requirement necessary to cover those expenses and generate a profit. Rate-eligible expenses which are pass-through costs (i.e. no profit may be earned on them) are added to that calculated revenue requirement to produce a total revenue requirement. The total revenue requirement is then measured against projected revenue at current rates to calculate a required rate adjustment percentage. That percentage is then adjusted by revenue offsets and the final percentage change is applied to all components of the rate structure to obtain future rates for each element of the rate structure.

Consistent with the current Rate Order, unregulated activity is separated from regulated activity before the required rate adjustment percentage is calculated. Unregulated activity includes service to contract customers, service to City Departments under the City Services contract that took effect January 1, 2025, open market debris box services (primarily C&D), and compactor sale, lease and maintenance services. Revenues for these items, along with an estimate of associated expenses based on a cost allocation model, are removed before performing the calculations described above.

RSF

As with collection rates, tipping fees are based on rate-eligible expenses plus an allowed profit on the profit-eligible expense categories. The rate-eligible expenses on which profit may be earned are divided by a 91% operating ratio. The rate-eligible expenses which are pass-through costs are added to that result to produce a total revenue requirement. The total revenue requirement, adjusted for revenue offsets, is then divided by the projected tonnage to be received by RSF to determine the required per ton tipping fee. This new tipping fee is then measured against the existing tipping fee to calculate the tipping fee adjustment percentage.

* * *

B. Overview of Projected Operating Costs

The following discussion covers the majority of the projected total operating costs (see Table 4(A) for Collection Operations and Table 5 for Processing Operations) of the SF Recology Companies. For each category, descriptions of changes at the collection operations and processing operations are separated.

- **Labor and Benefits.** Labor and benefits for the collection operations amount to approximately 43.0% of projected operating costs for RY 2026, the largest single category. For RY 2026, labor and benefits costs are projected to increase 7.3% over RY 2025 costs, primarily due to scheduled union labor increases and higher health and welfare and workers compensation costs. For RY 2027 and RY 2028, labor and benefits costs are projected to increase 6.5% and 5.9%, respectively, over the prior year's costs, again due primarily to scheduled and anticipated wage increases and higher health and welfare cost. Labor rates for RY 2027 (starting in January 2027) and RY 2028 are based on an estimate of the impacts of a new collective bargaining agreement, which is expected to become effective January 1, 2027.

Labor and benefits for RSF's post-collection operations follow similar patterns. Labor and benefits for these operations amount to approximately 50.8% of projected operating costs for RY 2026, the largest single category. For RY 2026, labor and benefits costs are projected to increase 5.5% over RY 2025 costs, primarily due to scheduled union wage increases and higher health and welfare and workers compensation costs. For RY 2027 and RY 2028, labor and benefits costs are projected to increase 6.4% and 5.6%, respectively, over the prior year's costs, again due primarily to scheduled and anticipated wage rate increases and higher health and welfare cost.

- **Disposal and Processing.** Post-collection costs for the collection operations represent 36.4% of total operating costs for RY 2026. This represents the amount charged to the Collection Companies by RSF through the RSF tipping fee. The tipping fee is charged to the Collection Companies without profit (i.e. with no operating ratio applied) because the tipping fee already includes a profit margin for RSF.

Post-collection costs are projected to increase 15.2% in RY 2026 due to the increased rates at RSF, and a change in the accounting for Public Receptacle tons. The accounting change involves charging Public Receptacle tons received at the Transfer Station at the gate rate instead of a reduced rate, consistent with the abandoned material collection tonnage and other collection tonnage delivered to the Transfer Station. The accounting change has little net impact, as the cost of processing the Public Receptacle tons is borne primarily by the Collection Operations, either directly through charged tipping fees or indirectly through higher tipping fees on balance of tonnage received by RSF.

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Disposal and processing costs for RSF represent the costs of disposal and processing outside of the SF Recology Companies. The costs are approximately 19.3% of total rate allowed expenses for RSF for RY 2026. Materials are currently sent primarily to the Recology Hay Road Landfill for disposal and BVON for organics processing. Rates for disposal at Hay Road Landfill are governed by an existing Landfill Disposal Agreement between the City and Recology San Francisco, and increase annually per the adjustment methodology in that agreement. The tipping fee for BVON in this proposal represents a tiered rate structure for mixed organics processing, as described above. The total tipping fees for all types of organic material (brush, commercial processed, and commercial unprocessed) are projected to increase 10.6% in RY 2026 and will increase through RY 2028, to reflect inflation and the increasing tonnage recovered with the updated processing equipment.

- **Truck Operations and Other Assets.** Truck operating costs for the collection operations represents approximately 4.1% of collections operating costs for RY 2026. Truck operating costs include fuel, oil, repairs and maintenance, parts and supplies, licenses, and City permits. Truck operating costs are projected to increase 6.3% in RY 2026 and 0.9% and 3.0%, respectively, in RY 2027 and RY 2028.

Truck operating costs for the processing operations is approximately 12.0% of total expenses for RY 2026 and throughout the rate period. Truck operating costs are projected to increase 8.1% in RY 2026 due to delays in vehicle replacements and 4.1% and 3.8%, respectively, in RY 2027 and RY 2028.

- **Capital.** Capital cost recovery includes lease costs and depreciation. Lease costs are costs to lease equipment by the Collection Companies for use in providing service to ratepayers.

Capital cost recovery accounts for approximately 5.3% of collection companies' operating costs in RY 2026. Lease costs have increased due to vehicle replacements required by California Air Resources Board rules on vehicle emissions. Depreciation is recognized for building projects and leasehold improvements. Capital costs are projected to increase 4.3% in RY 2026 and 8.4% and 2.7%, respectively, in RY 2027 and RY 2028, largely due to required vehicle replacements with higher cost per unit vehicles.

Capital cost recovery for the processing operations includes the cost of equipment necessary for processing and transporting materials collected in San Francisco. Capital costs represent approximately 4.2% of total costs for RY 2026 and include the costs for the processing facilities (Pier 96, Tunnel Avenue) as well as equipment used for processing and to move and haul material. Capital costs are projected to increase 18.2% in RY 2026, and 1.9% and 4.0%, respectively, in RY 2027 and RY 2028, largely due to heavy equipment and long-haul tractor replacements. To help mitigate these

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increases, the SF Recology Companies are proposing to defer the purchase of 59 new heavy-duty diesel vehicles.

- Advanced Clean Fleets/Capital Reserve Fund. CARB's ACF regulation requires that the SF Recology Companies transition their entire fleet of heavy-duty vehicles to zero-emission vehicles (ZEVs) by 2042, with milestone compliance requirements along the way. Under the milestone requirements, the SF Recology Companies will be required to have approximately 83 ZEVs in their combined fleet by the end of 2029. In addition to the higher costs of procuring these vehicles, the SF Recology Companies will need to cover the cost of installing the necessary charging/fueling infrastructure for these vehicles.

To address these regulatory requirements, this rate application proposes the acquisition of a total of 46 ZEVs over RY 2026-2028 to replace aging non-ZEV pickup trucks, service vehicles and light-duty collection vehicles which are not ACF-compliant. Moreover, this application proposes to create a new Capital Reserve Fund to fund future purchases of ZEVs and related infrastructure necessary to comply with ACF. Building a fund to help defray known future ACF costs will allow for greater flexibility in funding these necessary capital expenditures, while spreading out costs so as to help reduce the burden on future ratepayers and avoid a sharp rate spike in the future.

This application proposes to allocate \$21.3 million to the Capital Reserve Fund over RY 2027 and RY 2028 combined. It may be necessary to access the Fund to purchase ACF-related vehicles or infrastructure in the RY 2026-2028 period. The SF Recology Companies will propose a review and approval mechanism that can be utilized to access the Fund before the next rate-setting cycle, which will include procedures to use the Fund for other specified infrastructure needs with the RRA's approval.

- Trash Processing. SFE has long expressed an interest in cost-effective methods to increase diversion by processing the trash stream to recover organics and recyclables inadvertently discarded in the Trash bin. Under the current Rate Order, the City and RSF have cooperated in two pilot studies for trash processing. In this rate application, the SF Recology Companies have submitted a contingent rate schedule, which includes recovery of a capital investment of approximately \$34.6 million, along with operating costs for trash processing at the Tunnel Avenue site. The contingent rate schedule is conditioned on the SF Recology Companies (a) receiving certain regulatory approvals and (b) securing a satisfactory outlet for the tons recovered from the processing. If these conditions are met to the satisfaction of the RRA and the Rate Board, an additional 1.5% collection rate increase would be implemented in RY 2027 and an increase of 2.88% in RY 2028 at full operation. In the interim, Recology will work with the RRA, SFE and other stakeholders to

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continue to evaluate the benefits and costs associated with trash processing.

- **Organics Pre-Processing.** Prior to the current rate cycle, the mixed organics delivered by RSF to BVON contained high levels of contamination (non-organic material, particularly plastics). This made it more difficult to compost the material, increased the percentage of material disposed in landfill, and degraded the quality of the compost product. To address this problem, RSF acquired a trommel screen to pre-process a portion of the mixed organics at the Transfer Station. While this machinery has helped remove the worst of the contamination, a significant fraction of the organics is still being lost as part of the screening process and more can be done.

This application includes a proposed investment of \$3.9 million in more effective pre-processing machinery, which would be installed at the Transfer Station in RY 2027. The new machinery, an organics press, will produce cleaner feedstock and reduce the amount of organic material lost in processing, thereby increasing the amount of material sent for composting. The existing trommel screen will be sold or repurposed outside of San Francisco, with full credit for the value of that equipment credited to the SF Recology Companies for the benefit of ratepayers.

Overloads Management. Containers overloaded beyond capacity increase the risk of spilled materials and are more expensive to service, due to the increased disposal cost. The SF Recology Companies propose to address this problem by installing cameras on 168 collection vehicles (all front loaders and some side loaders that service primarily commercial customers). The cameras and related software will help detect overloaded containers among Commercial and Apartment customers and charge them for the excess volume. Recovery of the projected capital cost of \$1.3 million for the program, along with associated operating costs, is expected to be fully offset by revenue from increased overage fees. The system will encourage these customers to right-size their service and pay their fair share for the services they receive.

- **Taxes.** On November 5, 2024, San Francisco voters approved Proposition M, which makes various changes to the City's business tax code, effective beginning in 2025. As a result of these changes, the SF Recology Companies' business taxes are expected to increase from \$4.6 million in RY 2024 to \$7.0 million in RY 2026 to \$8.3 million in RY 2028.
- **Other.** The remaining 10.4% of collection companies' operating costs for RY 2026 includes supplies, corporate services, general and vehicle insurance and professional services, among other costs. Additional detail is available in the Summary of Assumptions. These costs are projected to increase 8.7% in RY 2026 and 6.8% and 3.0%, respectively, in RY 2027 and RY 2028.

The remaining 6.1% of costs for the processing operations for RY 2026 includes utilities, supplies, taxes and facility fees paid to local entities,

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professional services and bad debt. Additional detail is available in the Summary of Assumptions. These costs are projected to increase 10.5% in RY 2026 and decrease by 3.1% and 7.1%, respectively, in RY 2027 and RY 2028.

C. Projected Revenues at Current Rates

Revenue at current rates is used to determine the rate change necessary to meet projected cost and profit requirements. The Collection Companies are projected to generate \$354.2 million from ratepayers in RY 2026 (at RY 2025 rates). That will be the revenue base that the RY 2026 increase will be calculated from. Each subsequent year's revenues at current rates are adjusted for any projected growth and rate increases from the prior year.

D. Recycling Revenues

Recycling revenue has been volatile over the last several years, as changing markets, changing consumer demand and changes in international freight prices have all affected prices of recycled materials. Recycling revenue projections for RY 2026, RY 2027 and RY 2028 are calculated based on the projected tons of each commodity multiplied by the projected price per ton. The recycling commodity price assumptions for materials processed at Recycle Central are based on the average price received over the last three years (2022 – 2024). Net recycling revenues offset a portion of operating costs for trash and organics processing and disposal.

E. Other Revenues

The SF Recology Companies also receive revenue from CalRecycle incentive programs, start up and returned check fees, and other miscellaneous sources. All such revenue derived from regulated activity is included in the rate calculation.

F. Revenue Offset – Programmatic Reserve Fund

This rate application includes an offset to the revenue requirements, relating to the Programmatic Reserve Fund. The Fund was established by the 2023 Rate Order and applied to RY 2024 and RY 2025. The purpose of the Fund is to provide a payment mechanism for City requests for additional services beyond those provided for in the 2023 Rate Order, such as additional street cleaning programs or additional outreach relating to contamination mitigation. It is expected that approximately \$2.5 million will remain in the Fund at the end of RY 2025. These funds are applied as an offset to the rate requirement for RY 2026. There is no proposed Programmatic Reserve funding for RY 2026, RY 2027 or RY 2028.

G. Balancing Account

The SF Recology Companies propose the ongoing use of the notional Balancing Account established during the current rate cycle. In addition, amounts accrued

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under the 2022 Settlement Agreement Balancing Account will continue to be amortized during Rate Years 2026 – 2028.

Settlement Agreement Balancing Account Amortization

Under the December 2022 Settlement Agreement with the City, the notional balance of \$1,424,341 remaining as of the end of RY 2023 must be applied to offset rates over a five-year period beginning in RY 2025. In each of the Rate Years in the upcoming rate cycle (RY 2026 – RY 2028), an annual amount of \$284,868 has been applied to partially offset rate increases requested in each of those years.

Notional Rate Balancing Account Established in RY 2024

Beginning with periods regulated under the current Rate Order (RY 2024-RY 2025), a notional Balancing Account was established. The Balancing Account is adjusted down or up by 50% of the above- or below-target profit earned by the SF Recology Companies in each Rate Year. Above- or below-target profit is calculated by comparing actual net profits or losses to the target profit that results from applying a 91% operating ratio to actual operating ratio-eligible expenses. The following equation illustrates this calculation:

$$\text{above/below target profit} = \text{actual net profits} - \left[\frac{\text{expenses}}{0.91} - \text{expenses} \right]$$

The notional balance is to be amortized over a period not to exceed 5 years. Each quarterly rate report includes a schedule showing all new activity in the Balancing Account.

The SF Recology Companies estimate that the Balancing Account will have a balance of approximately -\$13.8 million as of the end of Rate Year 2025, and have assumed that figure for purposes of this rate application. The final balance may be higher or lower, depending on the SF Recology Companies' actual financial results for rate years 2024 and 2025. The final balances will be known when the SF Recology Companies submit their final rate reports for those years, in January 2025 and January 2026, respectively.

The -\$13.8 million estimated balance in the Balancing Account at the end of RY 2025 is proposed to be amortized as follows:

- The portion of the balance attributable to under-projection of RY 2024 and RY 2025 payroll- and payroll tax-related costs (\$3.4 million) would be amortized in full in RY 2026.
- The remainder of the balance (\$10.4 million) would be amortized in equal installments over the next four years. This means \$2.6 million would be amortized each year for RY 2027-RY 2030.

IV. RATE STRUCTURE

The rate structure refers to the types of rates that are charged to different customers and for different services, and the types of discounts offered. While the SF Recology Companies are proposing rate *adjustments* for RY 2026-RY 2028, no significant changes to the rate *structure* are being proposed. This section provides an overview of the rate structure, and the proposed rate adjustments for certain rates.

A. Residential Rate Structure

Residential rates apply to customers occupying single-family dwellings and 2-5 unit multi-family dwellings with shared service. The current Residential rate structure consists of a base charge for each dwelling unit, a volumetric service charge for every 32 gallons of Recycling or Organics capacity, and a volumetric service charge for every 16 gallons of Trash capacity. An additional fee is charged for every 32 gallons of trash capacity above 32 gallons per dwelling unit.

In this application, the SF Recology Companies are proposing to increase the monthly base charge for each dwelling unit from \$17.60 in RY 2025 to \$20.80 in RY 2026, \$22.37 in RY 2027, and \$23.33 in RY 2028. The monthly volumetric service charges for every 32 gallons of Recycling or Organics capacity, and for every 16 gallons of Trash capacity, are identical to each other, and are proposed to increase from \$7.35 in RY 2025 to \$8.69 in RY 2026, \$9.34 in RY 2027, and \$9.70 in RY 2028. The monthly premium for each 32 gallons of Trash capacity above 32 is proposed to increase from \$11.74 in RY 2025, to \$13.87 in RY 2026, \$14.91 in RY 2027, and \$15.49 in RY 2028. The volumetric charges are for once-per-week service.

The rate increases experienced by individual Residential customers will vary depending on their service levels. The table below shows a comparison rates for RY 2025 under the current Rate Order, and for RY 2026 under the proposed rates, for the default Residential service level of a 64-gallon Recycling container, a 32-gallon Organics container, and a 16-gallon Trash container:

Component	Default Service Level at Approved RY 2025 Rates		Default Service Level at Proposed RY 2026 Rates	
	Volume (gallons)	Charge	Volume (gallons)	Charge
Unit charge	N/A	\$17.60	N/A	\$20.80
Trash (grey)	16	\$7.35	16	\$8.69
Recycling (blue)	64	\$14.70	64	\$17.37

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Organics (green)	32	\$7.35	32	\$8.69
Monthly charge	--	\$47.00	--	\$55.55

B. Apartment Rate Structure

Apartment rates apply to customers occupying multi-family dwellings with six or more units (but not more than 600 rooms) that have shared service and are not serviced with a compactor or any container larger than two cubic yards. The current Apartment rate structure consists of a base charge for each dwelling unit, and volumetric service charges for Recycling, Organics and Trash. To incentivize diversion, all three container types (Recycling, Organics, and Trash) are charged at the same rate, but a Diversion Discount is applied as described below. This structure rewards customers for reducing Trash service and increasing Recycling and Organics service.

In this application, the SF Recology Companies are proposing to increase the monthly base charge for each dwelling unit from \$5.85 in RY 2025 to \$6.91 in RY 2026, \$7.43 in RY 2027, and \$7.72 in RY 2028. The monthly volumetric service charge for every 32 gallons of Recycling, Organics or Trash capacity is proposed to increase from \$28.20 in RY 2025 to \$33.33 in RY 2026, \$35.84 in RY 2027, and \$37.22 in RY 2028. The volumetric charge is for once-per-week weekday service and is before application of the Diversion Discount.

The Diversion Discount is calculated by taking the customer's subscribed-for weekly container volume of Recycling and Organics containers, dividing it by the subscribed-for weekly container volume of Recycling, Organics, and Trash containers, and subtracting 25%. For example, if an Apartment customer has three one-cubic-yard bins – one each for Recycling, Organics, and Trash – each collected once per week, the customer's Diversion Discount would be 42% (67% minus 25%). If the customer replaced the one-cubic-yard Recycling bin with a two-cubic-yard Recycling bin, also collected once per week, the Diversion Discount would increase to 50% (75% minus 25%). The Diversion Discount is calculated based on recurring (i.e., at least weekly) Recycling, Organics, and Trash service only, and the discount is only applied to the volumetric charges.

C. Commercial Rate Structure

Commercial rates apply to all customers occupying premises that are not Residential or Apartment premises, including all non-residential premises, all premises serviced with a compactor or any container larger than two cubic yards, and all premises with more than 600 rooms.

The Commercial rate structure, like the Apartment rate structure, is designed to promote diversion by charging all three container types at the same rate, and then providing a Diversion Discount. The Diversion Discount is calculated the same way

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as for Apartment customers. Unlike Apartment customers, there is no “unit charge” for Commercial customers.

Although the Refuse Rate Board does not regulate Commercial rates, Commercial costs and revenues are considered by the RRA and the Rate Board in calculating Residential and Apartment rates. In this application, the SF Recology Companies are assuming that the monthly volumetric service charge for every 32 gallons of Recycling, Organics or Trash capacity will increase from \$52.76 in RY 2025 to \$62.35 in RY 2026, \$67.04 in RY 2027, and \$69.63 in RY 2028. The volumetric charge is for once-per-week weekday service and is before application of the Diversion Discount.

D. Disabled Service

This rate application continues the disabled service program for Residential customers. The program provides a waiver of access, distance, and elevation charges for disabled and elderly infirm persons if no able-bodied person resides at the residence.

E. Low Income Discount

This rate application continues the low-income discount program for Residential customers. The program provides a 25% discount off regular collection rates to low-income households that meet certain eligibility requirements.

F. Discount for E-Bill Customers

To reduce paper use, e-bill customers will continue to receive a \$1.00 credit for each bill presented and paid electronically. Costs associated with providing this discount to existing customers are included in the rate application as a reduction to existing revenue. Costs for discounts provided to additional customers who sign up for paperless billing will be borne by the SF Recology Companies, as the cost will be partially offset by savings in printing and postage.

V. IMPOUND ACCOUNT

The Impound Account provides funding for SFE and Public Works to support programs that benefit ratepayers, including the City's Zero Waste program, the City's toxics reduction program, and City litter patrol and block sweeping programs. The SF Recology Companies do not earn profit from any funding of the Impound Account.

Under the current Rate Order, the rates include a fixed dollar amount for the Impound Account in the amount of \$24.2 million for Rate Year 2024 and \$24.6 million for Rate Year 2025. SFE and Public Works have requested to increase Impound Account funding to \$29.3 million in RY 2026, \$30.3 million in RY 2027 and \$31.8 million in RY 2028, subject to adjustment as provided below. These amounts have been included in the proposed rates contained in this application.

The SF Recology Companies are proposing to modify funding for the Impound Account from a fixed dollar amount to percentage of revenue recognized relative to revenue projections. For example, if the SF Recology Companies recognized 102% of projected revenue for a given period, Impound Account funding for that period would be 102% of the approved funding level. Likewise, if the revenue recognized were 98% of projected revenue, Impound Account funding would be 98% of the approved funding level. Because the Impound Account funds programs that benefit ratepayers, this change will ensure that the amount of funding is calibrated to actual revenues from ratepayers. The Companies propose to adjust Impound Account funding each quarter to reflect the current year-to-date percentage of projected revenue.