

Request for Changes to Refuse Rates Summary of Assumptions



January 3, 2025

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

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This Summary of Assumptions describes projected revenues and expenses for Rate Year 2026 (RY 2026), Rate Year 2027 (RY 2027) and Rate Year 2028 (RY 2028), for Recology Sunset Scavenger (RSS), Recology Golden Gate (RGG) (together, the “Collection Companies”), and Recology San Francisco (RSF), and the assumptions underlying those projections. The three companies are collectively referred to as the “SF Recology Companies.” For definitions of other defined terms used in this document, please see the Narrative Summary.

I. GENERAL ASSUMPTIONS

Accounting Methodology

The SF Recology Companies use accrual accounting and U.S. GAAP for the amounts reported in this rate application except for the costs of the Recology Inc. Pension Plan, which are based on the actual cash contributions to the Plan.

Certain expenses incurred by the SF Recology Companies are excluded for rate purposes, from rate reporting, and from this rate application. An example is advertising expenses. These expenses are not included in the reported actual costs for RY 2022, RY 2023, and RY 2024 nor are they included in the projections for RY 2025, RY 2026, RY 2027 and RY 2028.

Growth Assumptions

The last rate-setting cycle anticipated an economic recovery from the contraction in the Commercial sector in San Francisco that resulted from the COVID-19 pandemic. The collection rates established for RY 2024 and RY 2025 assumed that collection revenue and tonnage would increase by 2% per year across all customer segments (Residential, Apartment, Commercial). Unfortunately, that growth did not materialize, and this lack of growth became a significant factor driving the proposed rate increases for RY 2026. For more information, see the “Growth Assumption” section of the Narrative Summary.

For the RY 2026-RY 2028 period, the SF Recology Companies believe that growth rates should be applied to the Commercial customer segment only. There will be no appreciable Residential growth and minimal Apartment growth. Any appreciable future growth will occur in the Commercial sector.

Moreover, there are no clear signs that a recovery in the Commercial sector is imminent. In consultation with economists connected to Recology’s banking partners and through review of real estate vacancy rates and other relevant economic information, the SF Recology Companies are projecting limited growth during the upcoming rate cycle. Tonnage is currently down for October and November 2024 as compared to the same period in 2023 and Commercial activity in the Collection Companies continues to remain flat. The rate application therefore includes the following growth projections:

RY 2026 - .75% growth in tonnage and revenue in the Commercial sector only
RY 2027 - 1.0% growth in tonnage and revenue in the Commercial sector only
RY 2028 - 2.0% growth in tonnage and revenue in the Commercial sector only

GENERAL ASSUMPTIONS

Inflation Assumptions

Many of the operating costs for the SF Recology Companies are projected to increase due to inflation. In the rate application, RY 2024 numbers reflect actual results and are tied to audited financial statements. Projections for RY 2025 are described below. Projections for RY 2026 – RY 2028 include several line items adjusted by an inflation factor. The general inflation factor is based on the CPI forecast for San Francisco, as published by the State of California Department of Finance. This forecast has been adjusted to align with the rate year rather than the calendar year. The inflation factors included in the rate applications are as follows: 2.84% for RY 2026, 2.95% for RY 2027 and 2.96% for RY 2028.

RY 2025 Projections

The projections for RY 2025 form the basis for projections in RY 2026 – RY 2028. The projections were determined either by applying an inflation factor to the RY 2024 actuals or calculating expected line-item results based on currently available information.

Unregulated Activity

As described in the Narrative Summary, unregulated activity is separated from rate-regulated activity before the required rate adjustment percentage is calculated for the Collection Companies. Revenues from unregulated services are removed before performing the calculations in Schedule B.1. Expenses related to the unregulated services are also removed from Schedule B.1, based upon a cost allocation model that includes direct and indirect costs.

II. COLLECTIONS

A. Overview

In the upcoming rate cycle, the Collection Companies will maintain their focus on providing excellent service, while working with our City partners and customers to increase diversion, keep the City clean, and support the City's environmental goals. As part of this effort, several initiatives are designed to enhance existing programs, including increased outreach and education, expansion of abandoned material collection, and implementation of new operational, billing and customer service technologies.

B. Commercial Recycling and Composting

The Collection Companies currently operate dedicated commercial recycling and organics routes. Commercial customers are, and will continue to be, encouraged to increase their diversion rates through outreach and diversion incentives. Ongoing routing efficiencies should allow the Collection Companies to manage these changes without the need to add commercial routes in RY 2026, RY 2027 or RY 2028.

C. Apartment Diversion

Apartments are the lowest-performing customer class for diversion. Lower tenant participation, container inaccessibility, and quality control challenges all contribute to lower diversion rates. Because there are approximately 9,500 apartment building accounts (about 1,000 of which are classified as Commercial), working with these customers to improve diversion is one of the best ways to achieve the City's Zero Waste goals.

During RY 2026, RY 2027 and RY 2028, the Collection Companies propose continuing the apartment diversion program with the goal of further decreasing the amount of material sent to the landfill, reducing contamination, and increasing recycling and composting tonnage. This program will continue to focus on apartment buildings with larger volumes of divertible material. In collaboration with the San Francisco Environment Department (SFE), the Collection Companies have identified a significant opportunity to improve diversion in this category by focusing on these customers. The City has seen rapid growth in the number of properties that fall in these categories, which provides a significant opportunity for Recology to encourage greater diversion.

The Collection Companies will work closely with SFE, the Professional Property Management Association of San Francisco (PPMA), and the San Francisco Apartment Association (SFAA) to implement this initiative. The proposed program enhancements focus on tenant engagement, especially at buildings with currently low diversion rates and the greatest potential for improvement.

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D. Outreach and Education

Customer education is essential to increasing diversion and helping to achieve the City's ambitious climate action goals. Residents and businesses need to be aware of collection options and the resources available to them. The SF Recology Companies' Waste Zero team will focus on targeted outreach and education materials to the largest customers by volume with the lowest diversion. Outreach and education will focus on partnering with customers to enhance their diversion through site visits, presentations and training.

E. Contamination Program and Fees

The organics collection program collects material from Residential, Apartment, and Commercial customers. The program has been negatively affected by the relatively high level of contaminants, primarily plastics, in the organic material collected in carts and bins. The impacts of that contamination include higher transportation costs, higher disposal costs, additional expense to clean the incoming material, and lower-quality finished compost.

To address this issue, the SF Recology Companies implemented an organics preprocessing operation during the current rate cycle. During the upcoming rate cycle, the SF Recology Companies propose to increase outreach and education, invest in more advanced equipment to remove contaminants before the organics are shipped to the composting facility, and increase focus on contamination fees, to ensure the costs are borne by those who create the contamination.

The process used to communicate and bill customers for contamination has been updated during the current cycle. The Collection Companies are seeing modest reductions in the amount of contamination at the customer level. This proposal continues the automated customer communication process, the reduced number of warnings before fees are charged, and the removal of the Diversion Discount if customers repeatedly fail to respond to warnings. The Collection Companies will also refocus the current contamination tracking pilot with high resolution hopper cameras and an enhanced back-office tracking and reporting system. Preliminary results of the testing should be available in spring 2025. It is expected that charges for contamination will increase with the new efforts and begin to decrease as customers modify their behavior and use the system correctly.

F. Bulky Item Recycling

The Bulky Item Recycling (BIR) program is available to single family households, multi-family building owners, and residential tenants. The program accepts appliances, electronics, mattresses, furniture, scrap metal, wood, and other large items.

The BIR program continues to be very popular. A total of 14 trucks and drivers are deployed to meet program demands. The Collection Companies have included additional outreach costs for mailers targeting multi-family tenants in an effort to

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increase participation in the BIR program and reduce the volume of abandoned material associated with this group.

G. Abandoned Materials Collection

The Collection Companies collect abandoned materials throughout San Francisco. Abandoned materials to be serviced are identified through the City's 311 reporting system and by Recology personnel. There are currently six zones and seven routes, with each zone having a rear loading vehicle and box van to collect the materials. Drivers within each zone are dispatched via 311 calls in addition to completing sweeps in heavy areas to service abandoned material. The SF Recology Companies and Public Works added the sixth zone during the current rate cycle to provide enhanced coverage and response time throughout San Francisco. This rate application includes the addition of three afternoon routes, at the request of Public Works. Detailed costs associated with the proposed additions are available in the supplemental program schedules filed with the rate application.

All stops and collections are documented, and material is diverted as appropriate. The abandoned materials collection program also provides support for City events, such as parades, festivals, and holiday events.

H. Public Refuse Receptacles

The pandemic changed the distribution of waste in public refuse receptacles ("city cans") throughout the City. The Collection Companies added two city can routes during the current rate cycle to better provide service to impacted mixed residential and commercial areas of San Francisco. There are no proposed changes to city can routes in this rate application. The Collection Companies have and will continue to identify impacted areas and deploy resources to meet city can service needs. The rate application does include the cost of cameras to be installed and operated on the city can collection vehicles. These cameras are intended to provide verification that the area around the city cans is serviced appropriately.

I. Clean-Up Events for Residents

During the current rate cycle, the Collection Companies reinstated Saturday clean-up events held throughout San Francisco. These events allow San Francisco residents to bring their material to a nearby centralized location for appropriate separation and diversion or disposal. To handle the operational set up, coordination with the City, and other tasks associated with these events, supporting supervision was added. This program is proposed to continue in the next rate cycle, with one event in each supervisorial district for each of RY 2026, RY 2027 and RY 2028.

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J. Tracking Overloaded Containers and Carts

The Collection Companies are proposing to add cameras and connect to an automated tracking system to identify and charge for overloaded containers. Overloaded containers create challenges for safety, cleanliness and fairness. Safety is impacted as overloaded containers become difficult to handle and dump. Overloaded containers often lead to spilled contents, adding to litter problems in the City. By charging customers that overload their containers, the fees for service more closely align with the usage. Overall, the new system will allow for better identification of overloads and will ultimately change customer behavior, by encouraging rightsizing of service and better utilization of all three containers available to each customer.

K. Other Programs

A complete list of programs included in the proposed rates is included in the Narrative Summary. Except as otherwise stated in this application, the proposed rates assume no significant increase above the current levels for services provided at no additional charge. For instance, the application includes approximately \$80,000 per month in costs for services provided to CBDs at no charge, which reflects CBDs' current service levels.

III. PROCESSING AND DISPOSAL

RSF operates materials processing facilities at Tunnel Avenue and at Pier 96. At the Tunnel Avenue facility, RSF operates a Transfer Station, a construction and demolition debris recovery facility (iMRF), an enclosed Public Reuse and Recycling Area (PRRA) with an adjacent covered sort line, an organics transfer area (West Wing), a household hazardous waste facility, and scales. At Pier 96, RSF operates a large-scale material recovery facility (Recycle Central) that processes residential and commercial recyclables. RSF also operates a long-haul fleet, transferring materials from its processing facilities to disposal and processing facilities.

A. Incoming Tons

Total projected tonnage is based on incoming tons for RY 2024. The tons are expected to stay flat for RY 2025 and are anticipated to grow by the growth rates described above, as applied to the Commercial and debris box tons for each of RY 2026, RY 2027 and RY 2028. Detailed tonnage projections are provided in Table 2 of the RSF rate submission file.

The volume of various recyclable materials processed at Recycle Central has changed in recent years. These changes include evolving manufacturing practices (such as the development of lighter-weight plastic bottles and cans), manufacturers' increasing preference for glass containers over plastic, and consumer spending habits (such as increased consumption of digital media and online shopping) that have reduced volumes of newspaper and mixed paper and have increased volumes of cardboard.

At the Tunnel Avenue facility, material volumes have also changed. Today, incoming organic tons have stabilized at approximately 500 tons per day, recovered somewhat from a large drop at the start of the COVID-19 pandemic. This volume is expected to remain constant through RY 2026 and increase slightly during RY 2027 and RY 2028. The volume diverted from landfill will increase in RY 2027 as the proposed changes to organics preprocessing will result in higher organics recovery and therefore higher volumes shipped to the organics processing facility. Volumes of construction and demolition debris received at the iMRF are down by approximately 66% from the pre-pandemic volumes. It is not expected that these volumes will return during the upcoming rate cycle. Processing of the remaining C&D material will take place at the processing line adjacent to the PRRA if/when the iMRF is repurposed to support trash processing.

As described in the Narrative Summary, in the upcoming rate cycle 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. The projected volume of this material is therefore classified as non-revenue tonnage, and excluded from the calculation of projected revenue from tonnages received at RSF. Historically, these excluded tons also included material collected from public refuse receptacles. This rate application changes this

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practice to include the tons from public refuse receptacles as revenue tons, charged to the Collection Companies when they are delivered to the Transfer Station. These tons are charged the regular tipping fee, consistent with abandoned material tons and other tons collected by the Collection Companies. The change in accounting for these tons has a minimal impact on Collection Companies' rates, as direct charges for these tons are offset by a lower overall tipping fee for all tons being delivered.

B. Disposal Tons

Disposal tons are defined as the volume of material delivered to landfill. Disposal tons are delivered to the Recology Hay Road landfill under the Landfill Disposal Agreement between the City and Recology San Francisco. Projected disposal tons for RY 2027 and RY 2028 have decreased slightly with increased diversion of organic material described above, along with the lack of material growth during the rate projection period.

C. Diverted Tons

Diverted tons are defined as incoming tons that are diverted from disposal. Diverted tons include organics tons sent to BVON and JPO for composting and commodities recovered at Recycle Central and the Tunnel Avenue facility. Projected diverted tons for RY 2027 and RY 2028 are higher due to improved preprocessing that generates more organic material from the same tons, outreach and education, and other efforts to promote diversion.

IV. COSTS

The following table summarizes the major rate-allowed operating cost categories of the SF Recology Companies, after elimination of intercompany disposal and processing costs at the Collection Companies, for RY 2026, RY 2027, and RY 2028:

Expense Categories (in millions)	RY 2026	RY 2027	RY 2028
Labor and Benefits	\$ 249.2	\$ 265.4	\$ 280.9
Truck Operations and Other Assets	35.5	36.5	37.7
Disposal and Processing	31.7	32.8	34.0
Facility and Operations Maintenance	15.5	15.5	15.9
Other	50.1	52.5	53.1
Capital	27.5	29.4	30.3
TOTAL	\$ 409.6	\$ 432.0	\$ 451.9

A. Labor and Benefits

1. Salaries and Wages

Union wages are projected to increase at varying rates as detailed in the current collective bargaining agreements and as estimated based on industry comparisons in the Bay Area. Non-union wages are expected to rise at 4% over calendar years 2026 - 2028.

Payroll expenses are computed based on the projected employee count and wage increases, as described above. Headcount reflects staffing at the end of RY 2024, adjusted for new hires during RY 2025, as approved in the current rate cycle, along with a small number of additional positions proposed for RY 2026. Positions added since RY 2024 will improve supervision and better manage facility and fleet maintenance as well as provide expanded abandoned material collection services as described above.

2. Payroll Taxes

Payroll taxes are projected based on current city, state, and federal tax rates and are calculated as a percentage of wages.

3. Pension and 401(k)

Pension costs consist primarily of projected cash contributions within the Employee Retirement Income Security Act (ERISA) pension plan funding guidelines, as calculated by Recology’s pension plan actuary for the Recology Inc. Pension Plan.

During the current rate cycle, the SF Recology Companies reduced their annual contribution from approximately \$23.5 million to approximately \$11.5 million. This

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change resulted in a slowing of growth in the funded percentage of the Plan, which is now steady at 93% - 94%. It is anticipated that the Plan contributions are expected to remain at approximately \$11.5 million in each of RY 2026, RY 2027 and RY 2028. This is projected to allow the Plan to maintain funding status at approximately 94%. Market volatility, affecting plan assets, and any pension obligation changes, could affect that projection, and further regulatory and/or contractual contributions may be required in the future based on actual Plan asset returns and changes to service levels or benefits.

RSF also provides pension benefits for employees represented by the Operating Engineers Local 3 under a separate multi-employer union-sponsored plan. This plan is funded as a cost per hour for each participating employee. The contribution per hour for that plan is \$11.01 as of January 2025 and is expected to remain the same for RY 2026, RY 2027 and RY 2028.

Pension costs also include matching contributions to a Recology-sponsored 401(k) plan for non-union employees. The estimated contributions to that plan for RY 2026, RY 2027 and RY 2028 are \$392,303, \$407,995 and \$424,315, respectively. These projected contributions are based on projected contributions for RY 2025, adjusted for increased headcount.

4. Health Insurance

Health and welfare programs are offered to Recology employees through several service providers. Programs include medical, prescription drug, dental and vision coverage, long-term disability, life insurance, and employee assistance programs. The programs are provided to union employees pursuant to the collective bargaining agreements, which dictate the level of benefits. Programs offered to non-union employees include co-payments and deductibles. The programs are managed by Recology Inc., and the costs are allocated to the operating affiliates based on their specific participation and programs offered. Excess insurance coverage is maintained to mitigate the risk of catastrophic losses. No profit is included in the allocated costs in the rate calculation.

The projected health and welfare benefit costs contained in this rate application are based on anticipated RY 2025 costs, inflated by 11.7% for 2026, 10.1% for 2027 and 9.8% for 2028. The inflation factors were developed by third-party actuaries and are based on general health care cost trends, specific program demographics and historical cost changes.

Post-retirement costs in this rate application reflect the cost of participation in the Retirement Security Plan (RSP), sponsored by the Teamsters Benefit Trust. The RSP provides post-retirement medical benefits to union members who qualify under the terms of the applicable collective bargaining agreements. The RSP cost is paid monthly for each eligible employee. RSP rates are adjusted in July of each year. The monthly RSP rate has remained constant over the last four years and is not expected to increase until July 2027. These costs are projected to increase using the general inflation factor in July 2027 and July 2028.

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5. Workers' Compensation

Workers' compensation covers the costs associated with workers injured on the job. These costs arise from temporary and permanent disability, medical evaluation and care, claims administration, insurance premiums, legal fees, and ancillary administrative functions. These costs reflect the share allocated to the SF Recology Companies from a pooled risk program for all Recology companies. The allocation follows standard actuarial practices and reflects payroll, participant company risk, and historical claims performance. No profit is included in the allocated costs in the rate calculation.

Workers' compensation costs are expected to increase approximately 15% in RY 2025 from RY 2024, due to an unexpected drop in RY 2024 related to reserve adjustments. The expenses for RY 2026, RY 2027 and RY 2028 are expected to climb slightly faster than general inflation, influenced largely by rising medical costs. Workers' compensation averages 10.7% of payroll across the rate application period.

B. Truck Operations and Other Assets

1. Repairs and Maintenance, Parts, Tires, and Tubes

Equipment and vehicle repairs and maintenance costs are based on historical costs adjusted for inflation and specific items identified by the maintenance teams. Outside repair costs reflect costs for major repairs to vehicles and costs of towing and other third-party support services. Parts, tires, and tubes are projected for RY 2026, RY 2027 and RY 2028 based on actual costs for RY 2024 and projected for RY 2025. These costs are adjusted for inflation during the rate period. Lower costs of maintenance for the replacement vehicles purchased in RY 2023, RY 2024, and RY 2025 are offset by expected increases as some vehicle replacements are delayed in advance of investment in zero-emission vehicles.

2. Fuel and Oil

Fuel costs continue to be volatile and have risen and fallen sharply in the recent past. Fuel volumes are consistent with current use and are projected to remain the same for RY 2026, RY 2027 and RY 2028. Prices per gallon for various fuel types are based on current prices per gallon, adjusted to account for expected inflation and adjusted to reduce the impact of any temporary seasonal variations.

3. Taxes and Licenses and Permits

Taxes listed include personal property taxes on equipment and other assets and San Francisco business taxes based on revenue. Projected tax costs are based on estimates of asset costs, revenue, headcount and other measures that are used to calculate taxes. Business taxes are increasing significantly during the upcoming rate cycle, based on the newly passed changes to the SF business tax and anticipated increases in revenue as a result of the rate review process.

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Licenses and permits include costs for Department of Motor Vehicle registrations, Department of Public Health license fees, and Public Works debris box permits. Costs for the Department of Public Health license fees are based on the actual amount paid in RY 2024, adjusted for general inflation. Licenses and permits costs also include the cost of over-the-road vehicle licenses and a permit for the City of Brisbane, currently estimated at \$4.7 million for RY 2026, \$4.8 million in RY 2027 and \$5.0 million for RY 2028. This fee covers required permits for recycling operations that take place on Recology properties within Brisbane. Costs for other licenses and permits for RY 2026, RY 2027 and RY 2028 are expected to increase with general inflation from RY 2024 levels.

C. Disposal and Processing

1. Disposal and Hauling Costs

Disposal costs for RY 2026, RY 2027 and RY 2028 are based on projected tonnage and the disposal rates, adjusted using the general inflation rate, in the Landfill Disposal Agreement. Disposal tonnage, which is projected to remain relatively constant throughout the projection period, includes residual from Recycle Central and tonnage from the Tunnel Avenue Transfer Station. In addition, concrete, dirt, and other small bits of material recovered from other RSF operations, including materials that can be used for cover, construction, and facility maintenance activities are also hauled to the Hay Road Landfill or BVON.

External freight costs for hauling to recycling markets is expected to increase by inflation during the projection period.

2. Organics Processing Fees

Organic material is hauled by RSF, primarily to Recology Blossom Valley Organics – North (BVON), located in Vernalis, California. The material is processed to remove contaminants and then moved through the composting process to create finished compost, which is then sold. The proposed BVON tipping fees for organic material for RY 2026, RY 2027 and RY 2028 are based on the proposed three tier rate structure described in the Narrative Summary. The tiered rate structure has separate rates for preprocessed organics and unprocessed organics, as well as brush. The proposed tipping fees are adjusted for general inflation in future periods. The BVON tipping fee includes the cost of disposal of contamination removed from the feedstock and credit for the revenue generated from the sale of finished compost.

D. Facility and Operations Maintenance

1. Property Rental

Intercompany property rental costs are derived from lease costs for properties owned by Recology Properties and used by the SF Recology Companies to serve San Francisco ratepayers. The rents are based on the cost of properties, a cost of capital, and a fixed

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recovery period. One property reached its full recovery during RY 2025 and is no longer included in the intercompany rentals. No profit is included in these rental costs in the rate calculation.

Intercompany rentals are the subject of the December 2022 Settlement Agreement between Recology and the City. Under that agreement, intercompany property rental costs are no longer included in the rates once the total rental amount described in the preceding paragraph has been recovered. In addition, if any property is no longer used to serve ratepayers, an amount equal to the cumulative rents recovered through rates for that property will be placed in a balancing account.

Outside property rental costs for leasing off-site office space for customer service and administrative operations are included and are expected to increase with inflation from 2025 levels. Outside rental costs also include lease payments to the Port of San Francisco for Recycle Central at Pier 96. The Pier 96 rent was increased by 3.0% on January 1, 2025. Increases for RY 2026, RY 2027 and RY 2028 are based on the current rental agreement, which extends through 2029.

2. Utilities

Utilities costs for RY 2026, RY 2027 and RY 2028 at Recycle Central and the Tunnel Avenue facility are projected based on expected energy consumed and forecasted costs per unit for electricity and water, adjusted for general inflation.

E. Other

1. Professional and Contract Services

Cost projections for RY 2026, RY 2027 and RY 2028 for professional and contract services are based on current experience and expected future needs for services during these rate years. Accounting costs have increased due to new reporting requirements under the current Rate Order. Engineering costs for RY 2026, RY 2027 and RY 2028 have been adjusted for anticipated costs for facility development projects including engineering and permit work related to new preprocessing equipment at the West Wing and environmental impact report development for the Tunnel and Beatty site. Legal fees are based on a historical average and include anticipated costs associated with negotiating the next collective bargaining agreements.

2. Corporate Services

The SF Recology Companies are subsidiaries of Recology Inc. Certain services, for example, People & Culture (P&C) and Information Technology (IT), are managed centrally by Recology Inc. to provide cost efficiencies to Recology's operating subsidiaries. The costs of these centrally managed services are allocated to the SF Recology Companies based on their outside net revenue as a percentage of the total net revenue across the allocation base. Intercompany revenue is eliminated for this calculation. Since the majority of RSF's net revenue is intercompany, received from the

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Collection Companies, the allocation percentages are low relative to the size of RSF's operations. There is no profit included in the allocation.

People & Culture provides management of benefits, employment law, employee training, and other employee management support services. The cost projections for RY 2026, RY 2027 and RY 2028 are based on RY 2025 projected costs for Recology Inc.'s P&C Department, adjusted for general inflation.

Corporate Administration provides general operations and corporate support services. Corporate Administration cost projections for RY 2026, RY 2027 and RY 2028 are based on RY 2025 projected costs for these services provided by the corporate office, adjusted for general inflation.

Environmental Compliance provides planning, permitting, and compliance support services. Environmental Compliance cost projections for RY 2026, RY 2027 and RY 2028 are based on RY 2025 projected costs for Recology Inc.'s Environmental Compliance Department, adjusted for general inflation.

Information Technology provides systems support for all digital technologies, including computers, phones, etc. Increased costs in RY 2025 reflect hiring and technology investments to modernize Recology's digital infrastructure. IT cost projections for RY 2026, RY 2027 and RY 2028 are based on RY 2025 projected costs for Recology Inc.'s IT Department, adjusted for general inflation.

Recology Ready is a strategic initiative to modernize technology infrastructure, as well as implement a new customer service, operations, and billing system. It is anticipated that the new system will be implemented in San Francisco during RY 2027 and will be live by the end of that rate year. Implementation of the new system will allow for improvements in customer experience and better integration of customer service, operations, and billing.

Corporate Finance provides audit, treasury, tax, and other financial services. Projected Corporate Finance costs for RY 2026, RY 2027 and RY 2028 are based on RY 2025 projected costs of Recology Inc.'s Finance Department, adjusted for general inflation. Costs associated with specific activities for the SF Recology Companies, including reporting requirements contained in the current Rate Order, are reflected in professional services and payroll costs for the SF Recology Companies and not here.

Internal Audit provides internal audit services. Projected internal audit costs for RY 2026, RY 2027 and RY 2028 are based on RY 2025 projected costs of Recology Inc.'s Internal Audit Department, adjusted for general inflation.

Sustainability provides support for sustainability issues, initiatives, and practices. Sustainability cost projections for RY 2026, RY 2027 and RY 2028 are based on RY 2025 projected costs, adjusted for general inflation.

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3. Operating Supplies, Office Supplies, and Telephone

Costs in RY 2026, RY 2027 and RY 2028 for operating supplies and office supplies are projected based on actual costs for RY 2024, projected for RY 2025 and adjusted for general inflation. Costs related to telephone are based on actual costs for RY 2024, projected for RY 2025 and adjusted for general inflation.

4. General and Vehicle Insurance

The SF Recology Companies participate in a risk pool with all other Recology operating companies to manage insurance costs. Insurance premium projections for RY 2026, RY 2027 and RY 2028 are based on information provided by Recology's insurance brokers and actuaries, including projected claims costs associated with fleet operations. Costs for claims, reserves and program administration managed by Recology Inc. are allocated to the SF Recology Companies based on these Companies' claims experience. Other costs are allocated based on a series of measures developed to reflect the SF Recology Companies' relative size and risk profile. No profit is included in the allocated costs in the rate calculation.

5. Other Expenses

Other expenses include community outreach, medical expenses, shoes and uniforms, bank service charges, and other miscellaneous items. Community outreach costs include the costs of working with community groups to promote Zero Waste initiatives and Recology and City recycling and organics programs.

F. Capital

1. Leases

Requirements for trucks, equipment, and leasehold improvements are projected for RY 2026, RY 2027 and RY 2028 based on a replacement schedule and anticipated facility and program needs, adjusted to defer some vehicle purchases in anticipation of the new ACF rules and purchase of zero-emission vehicles. Lease costs are added as equipment is received and put into service. These costs are managed by Recology Leasing and include the cost of the asset plus a cost of capital, net of any salvage value. No profit is included in lease costs. Lease terms are assigned as follows:

Trucks and rolling equipment:	7 years
Stationary equipment:	10 years
Furniture and fixtures:	8 years
Facility improvements:	15 years

Lease rates are based on the asset lives shown above using an implicit interest rate based on available lease line quotes and interest rates under Recology Inc.'s credit facility. For RY 2026, RY 2027 and RY 2028 projections, the rate used was 5.6%. The actual interest rate will be set on a monthly basis for each new lease as it is originated,

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based on Recology Inc.'s borrowing costs at that time. Lease additions for RY 2026, RY 2027 and RY 2028 consist primarily of trucks acquired to replace trucks due for replacement, other rolling stock, and processing equipment for improved contamination management and increased diversion.

2. Depreciation

Property and equipment, including major capital improvements, are depreciated on a straight-line basis over the estimated useful lives of the assets.

Additions of property and equipment and major capital improvements for RY 2026, RY 2027 and RY 2028 projections consist primarily of processing equipment for improved contamination management and various leasehold improvements at Pier 96 and other properties. The projections assume the depreciation will begin mid-year.