



# Rate Change Request

Refuse Rates Board Hearing #3

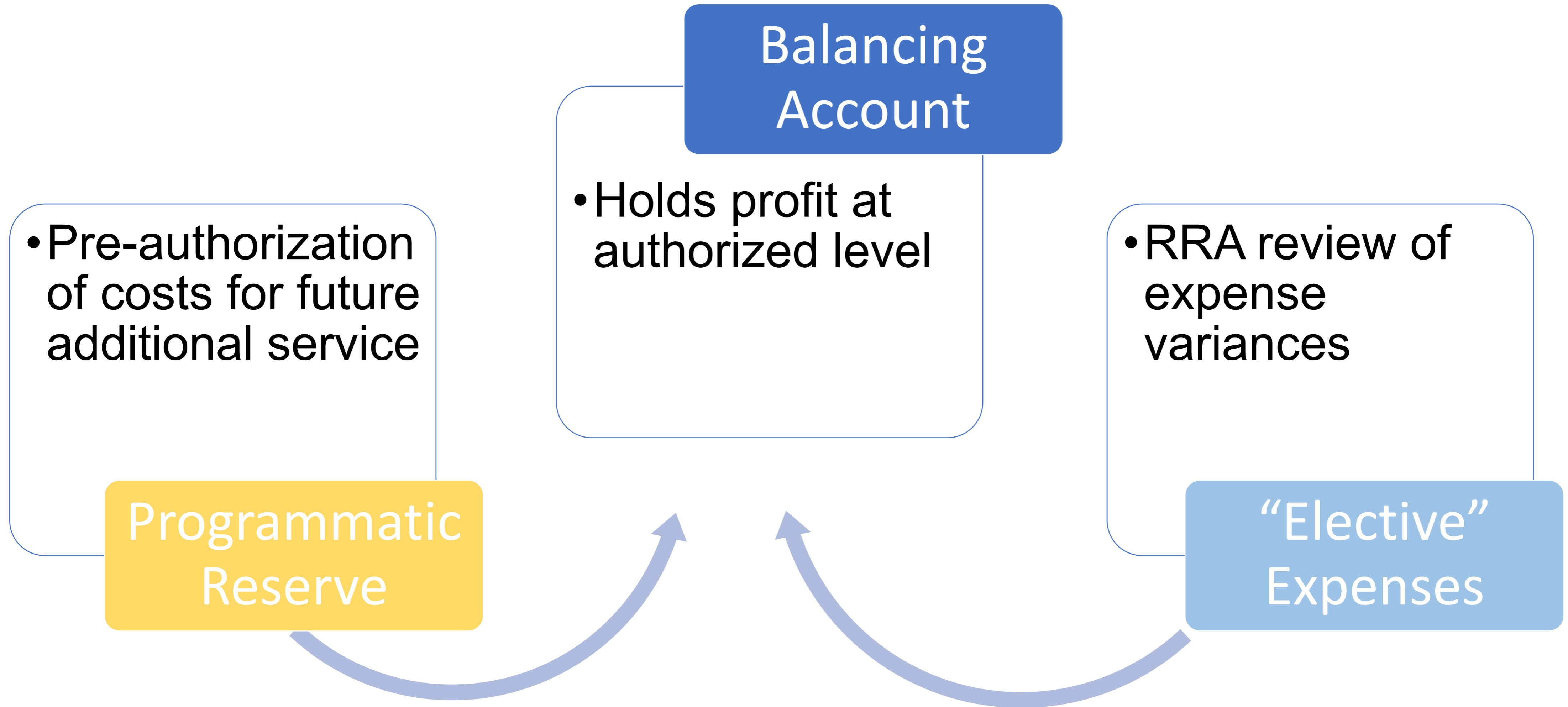
June 26, 2023



# Cost Control Mechanisms

- Major cost control mechanisms in this Rate Order, each with distinct purpose
  - Programmatic Reserve
    - Fund to pay for service requests outside of rate order
    - Controls annual costs of these service requests
    - Forward-looking
  - “Elective” Expenses
    - RRA review of variances in costs submitted during rate process
    - Designed to incentivize cost control if balancing account adjusted at 100%
    - Backward-looking
- Balancing account to regulate profit
  - Caps profit at approved level if adjusted at 100%

# Cost Control Mechanisms



# Programmatic Reserve

- RRA proposes a Programmatic Reserve to pay for service requests from City that are not included in rate order
- Controls costs for services outside rate order by capping annual funding
- Funding amount should be tied to revenue, not corporate allocations
- Recology proposes funding as percentage of actual collections net revenue retained



# “Elective” Expenses

- Response to concerns on incentivizing cost control if balancing account adjusted at 100%
- Allows RRA to review “elective” expenses and determine exclusion in target profit calculation used to adjust balancing account
- Variance analysis comparing actual expenses to approved projected expenses
- Carve-outs for cost changes due to changes in volumes, fuel, etc.
- Annual line-item materiality threshold of \$500,000

# Balancing Account

- Mechanism designed to hold Recology to the profit level approved in Rate Order
- Profits on OR-eligible expenses consistent with OR target profit if adjustments are based on 100% of profit variance
- A different adjustment percentage could allow significant variances
- RRA argues for 100% adjustment for certain items (e.g., pension)
- Impact of balancing account on rate volatility depends on multiple factors

# Pension

- Actuarial funding status projection with \$17M annual contribution for 3 years

YE26 (3 years)	YE28 (5 years)	YE32 (long-term)
100%	99%	97%

- SF Companies' share: ~\$16M in each rate year
- Long-term rate funding required - must consider ERISA funding obligations
- Two funding triggers proposed
  - (1) funding status falls below 98% after reaching 100%
  - (2) required cash contributions under ERISA regulations
- If either trigger occurs, rate funding should increase to cover shortfall

# COLA

- Annual rate adjustment for RY 2026 and beyond to provide backstop in the event next rate cycle delayed
- COLA would continue to be applied except for years when Rate Board sets new rates
  - Helps align rates with cost changes
  - Factors to approximate most recent cost structure
  - Weighting adjusted annually based on actual costs
- Including COLA mechanism in current rate order provides clarity



# Weekend Clean-up Events

- Supports proper disposal and reduces material left in the public right of way
  - Complements BIR, which targets larger items
  - 22 events across the City each year (2 per district)
  - Material collected at Weekend Clean-ups is subsequently sorted to increase recovery
  - Assumes a third-party will participate in reuse / e-waste component
  - Estimated annual cost = \$608K
- Alternative “3-bin” and reuse events
  - Source-separated disposal increases logistical complexity
  - Additional labor and other costs
  - Unclear if possible in each district due to additional space required
  - Assumes a third-party will participate in reuse / e-waste component
  - Estimated annual cost = \$850K

# Contamination

- Replace 6 existing cameras with 6 higher resolution cameras
- 1 additional FTE to evaluate photos, manage data, track impacts, and manage warnings
- Estimated annual cost = \$200K
- Estimated additional revenue from contamination fees:

Additional Contamination Revenue Estimate	
Commercial customers	15,538
Percent of commercial customers impacted	2%
Additional accounts identified	311
Average contamination revenue per customer with contamination per month	\$55
Est. monthly revenue	\$17,092
Est. annual revenue	\$205,102

# Organics Pre-Processing

- Electric trommel purchase in lieu of renting diesel-powered trommel
- Diesel-powered trommel not permitted under Air District regulations
- Lower cost than 2-year rental cost
- Estimated project cost:
  - Purchase: \$328K
  - Electrification: \$37K
  - Pollution offset credits: \$150K
  - Total: \$515K
- Annual cost: \$74K in RY 2024 / \$59K in RY 2025

# Zero Waste Capital Reserve

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





Thank you

