

Recology San Francisco  
 Weighted Average Cost of Capital Calculations  
Calculation of Small Company Size Adjustment

Equity return adjustment is based on the size of Recology relative to Waste Connections, the closest comparable public company

Recology revenue (millions)	750	Pro forma estimate
Waste Connections revenue (millions)	<u>1,660</u>	From Google Finance
Recology revenues as a percentage of Waste Connections	45.18%	
Waste Connection market capitalization (billions)	<u>4.40</u>	From Google Finance
Recology pro forma market capitalization (billions)	<u><u>1.99</u></u>	
Recology size return premium per Ibbotson	1.81	From Ibbotson 2011
Waste Connection return premium per Ibbotson	<u>1.01</u>	From Ibbotson 2011
Recology additional return on equity due to size	0.80	
Percentage of capital attributable to equity	<u>0.67</u>	
WACC size adjustment to Waste Connections WACC	0.54	Average equity percentage for 3 public companies
Waste Connection WACC	<u>7.70</u>	From Wiki Finance
Calculated WACC with size adjustment	8.24	
Weighted average WACC before size adjustment	<u>7.43</u>	
Calculated size adjustment to industry WACC	<u><u>0.81</u></u>	



	Apartment Customers			Commercial Customers		
	2009	2010	2011	2010	2011	2012
No. of Customers	7,530					10,950
Trash	3,744,795	3,609,561	3,517,666	5,567,619	5,142,735	4,837,759
Recycling	2,640,581	2,811,854	2,955,622	2,900,250	3,057,600	3,152,705
Compostables	124,318	281,886	307,134	1,069,689	1,396,882	1,626,588
Gallons	6,509,694	6,703,301	6,780,421	9,537,558	9,597,217	9,725,446
Variance to Prior Year			6,817,812		9,594,694	9,711,744
Trash		(135,234)	(91,895)		(424,884)	(64,298)
Recycling		171,273	143,767		157,351	108,394
Compostables		157,568	25,248		327,192	86,656
Gallons		193,607	77,120		59,659	130,752
Variance to Prior Year (%)			16,220		(2,522)	(13,703)
Trash		-3.6%	-2.5%		-7.6%	-1.3%
Recycling		6.5%	5.1%		5.4%	3.1%
Compostables		126.7%	9.0%		30.6%	10.2%
Gallons		3.0%	1.2%		0.6%	0.0%
Variance - Cumulative			0.3%		0.0%	1.4%
Trash		(135,234)	(227,130)		(424,884)	(729,859)
Recycling		171,273	315,041		157,351	252,455
Compostables		157,568	182,816		327,192	470,243
Gallons		193,607	270,727		59,659	57,137
Variance - Cumulative			291,898		57,137	187,889
Trash		-3.6%	-6.1%		-7.6%	-13.1%
Recycling		6.5%	11.9%		5.4%	8.7%
Compostables		126.7%	147.1%		30.6%	44.0%
Gallons		3.0%	4.2%		0.9%	0.9%
Trash to Total		53.8%	51.9%		53.6%	51.1%
Recycling to Total		41.9%	43.6%		31.9%	32.9%
Composting to Total		4.2%	4.5%		14.6%	16.0%
		100.0%	100.0%		100.0%	100.0%

Recology Sunset / Recology Golden Gate  
 Analysis of Apartment Caps and Migration  
Apartment Capacity and Service Minimums

	<u>Trash</u>	<u>Recycling</u>	<u>Composting</u>
Number of customers with service in excess of minimums	7,516	6,445	1,215
Percentage of customers with more than minimum service	86.89%	74.51%	14.05%
Revenue impact of change to minimum service (\$000)			<u><u>12,424</u></u>
Revenue impact of 25% change to minimum service (\$000)			<u><u>3,106</u></u>

Reconciliation of Rate Application  
Revised vs Original  
Recology Sunset Scavenger/Recology Golden Gate

	Amount	Increase/(Decrease) in Net Revenue Requirement	Notes
Difference (Net Revenue Requirement vs. Revenue @ Current Rate) - Original		50,537,032	
<i>Change in Base Revenue</i> Revenue	1,254,860		Updated all revenue types based on trailing 12-month actual (Feb 2012-Jan 2013)
<i>Revenue Adjustments</i>		(1,254,860)	
Impound Account	840,000		Funds for City Can replacement (1,680 x \$500/Can)
Change in 20-gal Volumetric Charge	1,257,219		Missed in the revenue requirement for overall rate increase calculation in the draft
Compactor Rate Adjustment	866,339		Difference in rate increase between RSS/RGG and RSF
Apartment Migration	2,187		Updated revenue base
Commercial Migration	(492,380)		Assume 2.5% on Commercial only
Paperless Bill Credit	(45,100)		Less bill credit assuming cost savings for new customers will offset credit
Diversion Incentive	(116,408)		Lower OR (Inc DI) from lower expenses
Net Change in Revenues	2,311,857		
<i>Change in Expenses</i> Payroll & related	1,056,997		
460,937			
Inflation rate	(181,900)		Added 3 routes for City Can expansion and Saturday hours for additional District Cleanup Events; lower health insurance and workers compensation based on updated actuarial reports
New Project Costs	(1,370,282)		Updated to 2.0% for RY 2013 and 2.2% for RY 2014 from 3%
I/C Disposal & I/C Processing	(3,663,272)		Removed routeware project
Corporate Services	(359,558)		Base on updated tipping fees and tonnage projection
Lease & depreciation	192,039		Updated projection for Corporate Services
Fuel	236,554		Updated lease expenses to actual leases or quotes, added trucks for City Can expansion and updated salvage value (moved RSF portion to RSF)
Liability Insurance	179,391		Additional for City Can expansion and Saturday hours for additional District Cleanup Events
Others	(99,019)		Updated actuarial reports
Net Decrease in Net Revenue Requirement	(4,605,110)		Updated other expense based on actual
Difference (Net Revenue Requirement vs. Revenue @ Current Rate) - Revised		(3,548,113)	
		46,988,919	
Reconciliation of Incentive and OR changes			
Operating Ratio Expenses	Final	Draft	Change
Operating Expense with Operating Ratio @ 91%	152,448,748	153,390,585	(941,837)
Additional revenue required to cover 91% OR	167,526,096	168,561,082	(1,034,986)
	15,077,349	15,170,497	(93,149)
Operating Expense with Operating Ratio @ 91%	167,526,096	168,561,082	(1,034,986)
Operating Expense with Operating Ratio @ 89%	171,290,728	172,348,972	(1,058,244)
Diversion Incentive	3,764,631	3,787,889	(23,258)
rounding	(1)	-	(1)
total additional revenue required to cover 89% OR	18,841,979	18,958,387	(116,408)

Reconciliation of Rate Application  
Revised vs Original  
Recology San Francisco

	Amount	Increase/(Decrease) in Net Revenue Requirement	Notes
<b>Net Revenue Requirement - Draft</b>		<b>102,889,213</b>	
<b>Change in Revenues</b>			
Recycling revenue	1,116,907		Updated average prices based on 5-year average from annual reports (Table 8), updated tonnage based on trailing 12-month actual (Feb 2012-Jan 2013)
Processing Purchases	605,772	(1,986,476)	Removed processing expenses included in Schedule D
	263,797		Updated tonnage and prices based on trailing 12-month actual
<b>Revenue Adjustments</b>			
Impound Account	(65,546)		Lower funding requirement for lower tonnage to Altamont
Other commercial revenues	(49,704)		Updated revenues based on actual, include outside rental revenues
Diversion Incentive	(218,790)	(334,040)	Lower OR (inc DI) from lower expenses
<b>Net Change in Revenues</b>		<b>(2,320,516)</b>	
<b>Change in Expenses</b>			
Payroll & related	(401,629)		Reduced 2 FTE drivers, 3 actual HC for drivers and 2 actual HC for Sorters
Inflation rate	(171,723)		Updated to 2.0% for RY 2013 and 2.2% for RY 2014 from 3%
Professional services	(754,047)		Removed \$150K related to rate application (Draft included \$450K, amortized 3 years); updated RY 2011 & 2012 numbers to exclude items not related to Rate such as expense for Ostrom Road Contracts and Waste Management litigation.
<b>Lease &amp; depreciation</b>			
Fuel	(191,608)		Updated lease expenses to actual leases or updated quotes and added projected salvage value
O/S Processing	(170,238)		Updated tonnage projection
Corporate Services	(160,735)		Removed processing already included in the calculation of net recycling revenue
O/S Disposal	(126,699)		Updated projection for Corporate Services
I/C Processing	(99,434)		Updated tonnage projection
Others	173,145		Updated tonnage projection for compostables
	5,471	(1,897,497)	
<b>Net Decrease in Net Revenue Requirement</b>		<b>(4,218,013)</b>	
<b>Net Revenue Requirement - Final</b>		<b>98,671,200</b>	
<b>Operating Ratio Expenses</b>			
Operating Expense with Operating Ratio @ 91%	Final	Draft	Change from Draft
	100,482,302	102,252,527	(1,770,225)
	110,420,112	112,365,414	(1,945,302)
Additional revenue required to cover 91% OR	9,937,810	10,112,887	(175,077)
Operating Expense with Operating Ratio @ 91%	110,420,112	112,365,414	(1,945,302)
Operating Expense with Operating Ratio @ 89%	112,901,463	114,890,480	(1,989,017)
Diversion Incentive	2,481,351	2,525,065	(43,715)
Rounding	2	2	
Total additional revenue required to cover 89% OR	12,419,163	12,637,953	(218,790)

Recology Sunset \ Recology Golden Gate  
 Apartment Revenue Analysis  
Impacts of Apartment Cap

Increase Distribution	No. of Accounts	Monthly Increase	% of Accounts	Average Recycling %	Average Change in \$/Account
No Change	10				
0.01 - 9.9%	133	16,914	0.12%	1%	\$127
10 - 19.9%	855	140,412	1.54%	13%	\$164
20 - 29.9%	2,720	343,458	9.92%	33%	\$126
30 - 39.9%	2,301	282,885	31.57%	47%	\$123
40 - 49.9%	1,289	177,254	26.70%	54%	\$138
50 - 59.9%	538	119,462	14.96%	58%	\$222
60 - 69.9%	284	81,302	6.24%	62%	\$286
70 - 79.9%	94	34,696	3.30%	62%	\$369
80 - 89.9%	68	24,585	1.09%	66%	\$362
90 - 99.9%	64	15,577	0.79%	69%	\$243
100 - 109.9%	102	13,319	0.74%	57%	\$131
110% & Above	159	54,146	1.85%	57%	\$341
	<b>8,617</b>	<b>1,304,011</b>	<b>100.00%</b>		

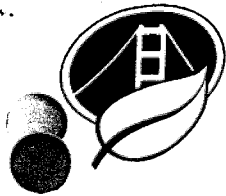
Increased apartment revenue without caps or migration 15,648,131

Increased apartment revenue per rate application 11,077,076

Additional potential revenue before migration 4,571,055







**SF Environment**

Our home. Our city. Our planet.



GAVIN NEWSOM  
Mayor

JARED BLUMENFELD  
Director

**TO:** Commission on the Environment

**FROM:** Jared Blumenfeld, Director

**DATE:** May 23, 2007

**RE:** Guidelines for the use of Impound Account Funds

As requested, the following is the text of the amended guidelines approved unanimously by the Commission on the Environment at the May 22, 2007 Commission meeting.

As a follow-up to the 2006 Refuse Rate Review Process, the Controller's Performance Evaluation, and the 2006-2007 budget process, the Department is updating the 2003 memo on the Use of Impound Account Funds.

This analysis is also based on the following background documents:

1. Rate Review Applications dating back to the inception of the Impound Account, including documents filed in the 2006 Rate Application
2. Memo dated October 11, 2001 from Deputy City Attorneys Rona Sandler and David Greenburg on the Use of Refuse Rate Proceeds
3. The Department of the Environment's budget for the past two fiscal years
4. Commission on the Environment Resolutions, including 010-06-COE May 23, 2006
5. May 21, 2007 Memo from Deputy City Attorney Tom Owen on use of Impound Account funds for Environmental Justice Projects

The Department of the Environment has a total budget of \$13,808,289 for fiscal 2006-2007, including \$6,483,967 from the Impound Account. Forty-seven percent of the Departmental budget currently comes from the Impound Account. The Solid Waste Impound Account was established to fund programs related to waste collection, disposal and diversion. In the 2006 rate review, the funding level for the Impound Account was set for the next five fiscal years.

### Background

San Francisco, along with other cities and counties in California, is required to meet a 1989 state mandate to divert at least 50 percent of the waste it generates from landfill each year, starting in 2000. San Francisco exceeded 50 percent waste diversion in 2001, and in 2002 the San Francisco Commission on the Environment and Board of Supervisors adopted ambitious new goals: 75 percent landfill diversion by 2010, and nothing to the landfill by 2020.

In order to achieve these goals, the City and County of San Francisco partners with private and nonprofit service providers to develop a comprehensive recycling program. The 3-cart solid waste collection program, familiarly known as the Fantastic 3, which was launched in partnership with the Norcal Waste Systems Companies, serves both residential and commercial customers. As part of this program, San Francisco was the first large city in the United States to implement citywide collection of food scraps, in addition to the more

commonly collected yard trimmings. The composting program now serves 150,000 households and 2,000 businesses and institutions. It diverts more than 300 tons of compostable material each day.

To attain its 75 percent diversion goal and work towards zero waste, San Francisco promotes the highest and best use of resources and is pursuing policies that require consumer and producer responsibility. These include mandatory construction & demolition recycling, requiring commonly purchased products to be recyclable or compostable, insisting on recycled content in items purchased by city agencies, demanding that manufacturers take responsibility for the entire life cycle of products they produce (particularly in the area of hazardous materials), and supporting efforts to eliminate subsidies to include more true costs for virgin material production.

## IMPOUND ACCOUNT SUMMARY

The 1932 Refuse Collection and Disposal Ordinance grants the City of San Francisco the authority to set refuse rates for residential ratepayers and gives the authority for the Impound Account, which was established in 1978. Section 6 of the 1932 Ordinance requires that refuse rates be "just and reasonable" but provides no further guidance as to limitations on the use of funds generated from the refuse rates. A 2001 City Attorney opinion on the use of refuse rate proceeds specified the following appropriate uses for the Impound Account:

- Costs and administration of the City's various solid waste management programs
- Programs to reduce the amount of solid waste generated such as recycling and public education
- Programs intended to reduce the costs of solid waste handling, such as reducing the amount of toxics in the solid waste streams
- Programs related to green building and environmental justice that are directed towards solid waste

Program activities conducted by the Department of the Environment (SF Environment) that relate to the production and management of San Francisco's waste stream are funded primarily through the Solid Waste Impound Account (SWIA). Funding levels for the SWIA are established as part of the refuse collection and disposal rate process. SWIA activities demonstrate a direct connection to the waste stream and include recycling, hazardous waste reduction, other solid waste-related programs (such as resource-efficient construction), and programs that mitigate the impact on neighborhoods affected by solid waste infrastructure.

The refuse rate process sets residential rates for a five-year period, with the latest process covering the period 2006-2011. The SF Environment SWIA budget included with the rate application was based on expenses for solid waste program activities over the same period. Projects included in this budget have been analyzed to ensure that they are appropriately funded by the SWIA using a review of the 1932 Refuse Ordinance, prior rate applications dating back to the inception of the SWIA, legal opinions on the use of refuse rate proceeds, as well as local and state mandates related to solid waste management. The budget is based on a comprehensive set of projects that form the complete framework for SF Environment's portion of the SWIA for the next five years, but it is understood that specific activities within this list of projects may be adjusted or amended based on advances in information, technology, and subsequent changes in municipal solid waste priorities.

The SF Environment SWIA budget outlines the services provided by each program area, as well the benefit of each service relating to the production and management of San Francisco's waste stream. The budget shows program costs itemized by employee expenses (FTE), outside professional services, and other expenses (such as program-specific materials and supplies). Program overhead—which comprise administrative costs, office rental, and general materials and supplies—and outgoing waste-related community grants are included in the program summary overviews.

The five-year budget for the SF Environment's portion of the SWIA started at \$6,483,967 for the first fiscal year, which is approximately 2 percent above the average expense level for the past three fiscal years. It

then increases by 4.3 percent annually for the following four fiscal years in order to maintain a consistent level of service.

### **Solid Waste Impound Account Programs**

Funds for the SWIA come from both residential and commercial ratepayers with approximately 34 percent of the funds coming from residential ratepayers. Projects funded by the SWIA include both residential and commercial projects.

**Zero Waste Program:** The goal of SF Environment's Zero Waste Program is to reduce waste going to the landfill through waste reduction, reuse, recycling and composting programs in order to meet the mandates of the California Integrated Waste Management Board and the San Francisco Board of Supervisors. These include the requirements to divert waste going to landfill by 75 percent by 2010, and the elimination of landfilling by 2020. The Recycling Program works towards these requirements through a series of programs coordinated with the Norcal Waste Systems companies, as well as other providers through a network of commercial, city government and residential programs.

**Toxics Reduction:** The Toxics Reduction Program administers a wide-range of hazardous waste collection services for spent or leftover household products including batteries, paint, pesticides, computers, motor oil, and mercury thermometers, as well as programs to reduce the amount of toxic materials used in the city. By reducing the amount of toxic materials, we lower the potential risk that this material will end up in the landfill, and protect the safety of refuse workers (and avoid liability) who could be injured or otherwise affected by hazardous materials that were disposed of improperly. The Toxics Program also works to ensure compliance with the state Universal Waste requirements, which require that all designated hazardous materials be kept out of Altamont landfill. Any hazardous material that is transported, stored or disposed of has the potential to end up in the landfill.

**Green Building:** Green, or resource-efficient building is a process that directs building projects and supporting infrastructure to minimize the use of resources going to landfill, and reduce the amount of toxic materials that are used in building construction and maintenance. SF Environment's Green Building Program serves the residential ratepayers by improving recycling and waste management infrastructure, increasing use of recycled content materials and the diversion of demolition debris. The program also provides information to residents on how to conduct green building projects at home. Only Green Building Programs that relate directly to preventing waste from going to landfill, and those that reduce toxic materials in construction, are paid for through the SWIA.

**Environmental Justice:** There is a direct nexus between environmental justice and the location of virtually the entire city's recycling and solid waste infrastructure in the southeast sector of the city. The primary facilities that process municipal wastes and recyclable materials are located in the southeast sector: (a) the San Francisco Solid Waste Transfer and Recycling Center (SFSWTRC) located at 501 Tunnel Avenue, and (b) Recycle Central at Pier 96, located near Evans Avenue in the Bayview neighborhood of San Francisco. Together, these facilities are permitted to handle up to 7,100 tons of materials and 1,733 vehicles per day. Additionally, the collection trucks operated by Sunset Scavenger start their daily routes at SFSWTRC.

Trucks using fossil fuels, especially diesel fuel, generate toxic air contaminants and particulate matter (PM) emissions as well as contribute to congestion and noise pollution that disproportionately affects the residents in the southeast sector. According to data from the US EPA, the SFSWTRC was responsible for 5 percent of the PM-2.5 and PM-10 emissions in the city in 1999.

In order to help mitigate these impacts, SF Environment has included funding for air quality issues, tree planting to mitigate air pollution and environmental education programs in the southeast sector of the city.

**SF Environment Grants:** The Zero Waste and Toxics Reduction programs both award grants to San Francisco non-profit organizations that offer cost-effective programs to increase waste prevention and the diversion of recyclable, compostable and toxic materials from landfill. This grant program has operated for over 15 years, providing grant funding to over 60 different organizations. New guidelines have been established for the grant program following the 2006 Controller's Performance Audit, and grants will be awarded and funded in accordance with these guidelines.

### Activities With A Nexus To The Impound Account

Activities that can be funded by the Impound Account include, but are not limited to, the activities outlined in the Department of the Environment's strategic plan for Zero Waste, Toxics Reduction, Green Building and Environmental Justice, which is updated annually.

Program	Maximum Percentage of Impound Account
Zero Waste (Recycling)	100%
Toxics Reduction	50%
Administration	25%
Green Building	10%
Environmental Justice	10%

### Zero Waste Program

The goal of SF Environment's Zero Waste (Recycling) Program is to reduce waste going to the landfill through waste reduction, reuse and recycling programs in order to meet the mandates of the California Integrated Waste Management Board and the San Francisco Board of Supervisors. These include the requirements to reduce waste going to landfill by 75% by 2010, and the elimination of landfilling by 2020. The Zero Waste Program works towards these requirements through a series of programs coordinated with Norcal Waste Systems, as well as other providers through a network of commercial, city government and residential programs. The Program also conducts extensive outreach and education programs, including programs for the residential, commercial and municipal sector, as well as an extensive school education program that reaches thousands of students annually. The Department also coordinates solid waste activities such as diversion studies and landfill related projects. We have determined that it is appropriate to fund all of the programs and projects being conducted by the Zero Waste Program by the Solid Waste Impound Account and that it would be appropriate to spend up to 100% of the Impound Account on Zero Waste activities.

### Toxics Reduction

The Toxics Reduction Program seeks to improve the quality of human health and the environment in San Francisco by providing information and services to San Francisco residents, businesses and City agencies to reduce the use of toxic chemicals and properly manage hazardous waste.

The program also administers a wide-range of hazardous waste collection services for spent or leftover household products including batteries, paint, pesticides, computers, motor oil, and mercury thermometers, and is the operator of the Household Hazardous Waste Collection Facility at Sanitary Fill. The Program also conducts extensive outreach and education programs, including programs for the residential, commercial and municipal sector, as well as an extensive school education program that reaches thousands of students annually.

The Toxics Program also works to ensure compliance with the state Universal Waste requirements, which requires that all designated hazardous materials be kept out of Altamont landfill. Any material that is transported, stored or disposed of has the potential to end up in the landfill. This would only exclude direct

emissions of toxics into the air or water. We have determined that it is appropriate to fund all toxics reduction projects except for those focusing on air or water emissions through the Impound Account, and that it would be appropriate to spend no more than 50% of the Impound Account on Toxics Reduction activities.

### **Green Building**

Green building is a process to create buildings and supporting infrastructure that minimize the use of resources, reduce harmful effects on the environment, and create healthier environments for people. SFE's Green Building Program's projects include recycling and waste management infrastructure, use of recycled content materials and the diversion of demolition debris. Traditional forms of building construction and operation consume up to half of all raw material use. Construction and demolition debris accounts for about 40 percent of the waste stream in San Francisco. We have determined that it would be appropriate to spend no more than 10% of the Impound Account on Green Building activities.

### **Environmental Justice and Clean Air**

Environmental Justice is the fair treatment and meaningful involvement of all people – regardless of race, ethnicity, income, or education level – in environmental decision-making. SF Environment's Environmental Justice Program promotes the protection of human health and the environment, empowerment via public participation, and the dissemination of relevant information to inform and educate affected communities so that all San Franciscans have an equal opportunity to lead healthy, fulfilling, and dignified lives.

The vast majority of the infrastructure for solid waste and recycling in San Francisco is located in an environmental justice community – the southeast sector of the City. According to EPA TRI data from the last decade, the City's transfer station is the 6<sup>th</sup> largest producer of PM-2.5 emissions in the City. The 4<sup>th</sup> and 6<sup>th</sup> largest producer of PM-2.5 emissions in the City were recyclers. Those three facilities alone were responsible for 23% of the PM-2.5 emissions in the City. The second largest emitter of volatile organic compound emissions in the City is a recycling facility. Solid waste and recycling facilities rank 4<sup>th</sup>, 5<sup>th</sup> and 7<sup>th</sup> largest emitters of PM-10 emissions, collectively accounting for 30% of the PM-10 emissions in the City.

The Department has determined that it is appropriate to use Impound funds to remediate or reduce environmental harms caused or aggravated by solid waste disposal and recycling activities conducted in the community, and that it would be appropriate to spend no more than 10% of the Impound Account on these activities.

**Administration:** SF Environment's Administrative Program provides coordinated and comprehensive administrative support to program areas while providing for all the administrative needs for the Department. We have determined that administrative expenses tied to Impound-related activities can be paid for by the Impound Account. This includes administrative expenses for waste prevention, reuse, recycling, solid waste, toxics reduction, and certain aspects of green building and environmental justice. Grant funded projects and programs funded by other departments, such as Energy, Clean Air and the Urban Forest Program, normally include their administrative expenses in their program budget, and are not funded by the Impound Account. Administration costs will be allocated based on program FTE counts for Impound staff, and adjusted based on timekeeping systems that will be put into place as of fiscal 2007-2008. We have determined that it would be appropriate to spend no more than 25% of the Impound Account on these activities.



<b>Tons Sent to Altamont</b>	<b>Total</b>
1988	108,824.78
1989	651,574.51
1990	643,145.32
1991	590,608.50
1992	591,140.24
1993	599,278.51
1994	604,423.31
1995	606,822.94
1996	639,455.29
1997	667,871.33
1998	678,195.19
1999	690,657.02
2000	729,716.92
2001	690,896.85
2002	627,618.20
2003	581,567.23
2004	560,252.64
2005	545,437.32
2006	546,734.35
2007	520,258.70
2008	467,218.47
2009	402,773.99
2010	379,362.21
2011	367,332.10
2012	365,924.00
2013 As of 2/28/2013	61,558.86
<b>Total</b>	<b>13,918,648.78</b>
<b>Contract Capacity</b>	<b>15,000,000.00</b>
<b>Balance Remaining in tons</b>	<b>1,081,351.22</b>
<b>Average Mtly Over Past 12 Months</b>	<b>30,677.00</b>
<b>Months Remaining in Capacity</b>	<b>35.25</b>
<b>Capacity Reached</b>	<b>Jan-16</b>





## Recology Organics Group Customers, Material Types and Rates

Customer Type	Rates/ton	Total Tons
<b>Customers with a Large Percentage of Food Waste</b>		
San Francisco Plus Six Other Customers	\$45.00 - \$50.20	189,000 tons/year
<b>Customers with a Small to Modest Percentage of Food Waste</b>		
Eleven Customers	\$29.06 - \$46.87	204,000 tons/year
<b>Customers with All Green Waste and No Food Waste</b>		
Eleven Customers	\$21.04* - \$35.16	50,000 tons/year

**Note:** Tip fees vary due to a variety of factors: local market conditions, nature of material, time of contracting, and other factors.

\* Includes one customer inherited from prior operator, Grover, when customer was green waste only. Now customer's waste stream now includes modest amount of food waste.



# EXPENDITURE NON-CONSTRUCTION CONTRACT REVIEW FORM: NEW CONTRACT

CMS # QJJX3  
(To be filled in by department)

Contract # 8389  
(To be filled in by Auditor)

CONTRACTOR NAME: Recology/Grover Environmental Products

Subject of Contract: Transport and process compostable materials from transfer station

This contract package contains:

3 Original Contracts (Department, Vital Record and Vendor) in folders

\*The Vital Record contract MUST be in a folder.

\*Optional: In lieu of folders, Department and Vendor copies may be assembled with an Acco-fastener.

	Attached	Waiver Attached	Not Required
1. CONTRACT BOILERPLATE	X		
2. Scope of Services (Exhibit A @ boilerplate)	X		
3. Payment Provisions (Exhibit B @ boilerplate)	X		
4. Evidence of Competitive Solicitation OR Waiver by CM or by Council Resolution	X		
5. CERTIFICATIONS			
a. Workforce Composition (businesses with 5 or more employees)	X		
b. Nuclear Free Berkeley Disclosure	X		
c. Oppressive States Disclosure (Exception: Community-based, non-profit organizations)	X		
d. Certification of Compliance with Living Wage Ordinance (LWO): use current form on web*	X		
e. Certification of Compliance with Equal Benefits Ordinance: use current form on web*	X		
f. Community Agency: Certification of Anti-Lobbying	X		
g. Community Agency: Certification of Drug-Free Workplace			X
6. Insurance Certificate/s AND Endorsement/s OR Insurance Waiver/s (originals, not copies)			X
7. Authorizing Council Resolution #64,868-N.S. 5/4/10	X		
8. Consultant Contracts: Form 700, Statement of Economic Interests			X

Berkeley Business License # 10-000-32487

Requisition # 145 376 (Hard copy attached)

Budget Code \$1,020,000 = Year One

Was there: \$294,800 - 820-5607-432-3038  
 \$350,000 - 645-5608-432-3038 No X Yes   
 \$268,000 - 820-5612-432-3038  
 \$107,200 - 820-5613-432-3038

Contract Amount \$3,410,950

Council Approved Amount \$ 3,410,950

If Yes, Advanced Amount \$

If Yes, Purchase Order #

**Routing and signatures:**

All elements of the contract package, including information provided above, have been reviewed for completeness and accuracy and evidenced by the following signatures:

Andy Schneider  
Project Manager

Public Works  
& Department

981 6357  
Phone No.

July 12, 2010  
Date

2. Nanilee K. Haber  
Department Administrative Officer/Accounting

3. Christine K. Smith  
Department Head

4. [Signature]  
Contract Administrator

5. [Signature]  
Budget Manager

**RECEIVED**  
JUL 21 2010  
**CITY AUDITOR**

Excluded  
7/20/10

7/16/10  
Date

7.16.10  
Date

7/19/10/7/16  
Date

Date

Routing continues to the following persons, who sign directly on the contract:

6. City Manager (Will not sign unless all signatures and dates appear above)

7. City Auditor (Initials [Signature])

8. City Clerk: CMS Login 7/29/10

Destruct

Review [Signature]

\* For current vendor forms, go to City of Berkeley website: <http://www.cityofberkeley.info/ContentDisplay.aspx?id=5418>

## PERSONAL SERVICES CONTRACT

THIS CONTRACT is entered into on \_\_\_\_\_ between the CITY OF BERKELEY ("City"), a Charter City organized and existing under the laws of the State of California, and Recology-Grover Environmental Products ("Contractor"), a corporation doing business at 235 North First Street, Dixon, California, 95620, who agree as follows:

### 1. SCOPE OF SERVICES

Contractor agrees to perform all services described in Exhibit A, in accordance with its stated terms and conditions. Exhibit A is attached to and made a part of this Contract.

### 2. PAYMENT

For services referred to in Section 1, City will pay Contractor a total amount not to exceed \$3,410,950. City shall make payments to Contractor in accordance with the provisions described in Exhibit B, which is attached to and made a part of this Contract.

### 3. TERM

a. This Contract shall begin on August 1, 2010 and end on July 31, 2013. City shall have the option to extend this Contract for two additional two-year terms, with the consent of the Contractor, in the manner provided herein. The option to extend shall be exercised by the City providing written notice to the Contractor at least ninety (90) days in advance of the expiration of this Contract or any extended Term. Any extension of this Contract shall be on the same terms and conditions applicable at the time of giving notice.

b. Either party may terminate this Contract for default upon ten (10) days written notice, if the other party has substantially failed to fulfill its obligations under this Contract in a timely manner. In the event of a default, the non-defaulting party may grant the defaulting party ten (10) days after receipt of written notice to cure any such default. In a case where the default is not able to be cured within the ten (10) day period, and the defaulting party has initiated a cure within the ten (10) day period and diligently pursues the cure proceedings, then the defaulting party shall have such additional time as the non-defaulting party determines is reasonably necessary to complete the cure of the default.

c. City may terminate this Contract at its convenience and without cause upon ninety (90) days written notice to Contractor. Except as provided in this Contract, in no event shall City be liable for costs incurred by or on behalf of Contractor after the effective date of a notice of termination.

d. A written notice is deemed served when a party sends the notice in an envelope addressed to the other party to this Contract and deposits it with the U.S. Postal Service, first class mail, postage prepaid. For purposes of this Contract, all notices to City shall be addressed as follows:

City Manager  
City of Berkeley  
2180 Milvia Street  
Berkeley, California 94704

For purposes of this Contract, all notices to Contractor shall be addressed as follows:

Recology-Grover Environmental Products  
235 North First Street,  
Dixon, California, 95620

e. If City terminates this Contract for convenience before Contractor completes the services in Exhibit A, Contractor shall then be entitled to recover its costs expended up to that point plus a reasonable profit, but no other loss, cost, damage, expense or liability may be claimed, requested or recovered.

4. **INDEMNIFICATION**

Contractor, for itself and its heirs, successors and assigns, agrees to release, defend, indemnify and hold harmless City, its officers, agents, volunteers and employees from and against any and all claims, demands, liability, damages, lawsuits or other actions, including, but not limited to, personal injury or death or property damage arising out of or in any way connected with Contractor's operations under this Contract, or with the performance of this Contract by Contractor or its officers, employees, partners, directors, subcontractors or agents.

5. **INSURANCE**

a. Contractor shall maintain at all times during the performance of this Contract a commercial general liability insurance policy with a minimum occurrence coverage in the amount of \$1,000,000 (one-million dollars); an automobile liability insurance policy in the minimum amount of \$1,000,000 (one million dollars); and, if any licensed professional performs services under this contract, a professional liability insurance policy in the minimum amount of \$N/A to cover any claims arising out of Contractor's performance of services under this Contract. All insurance, except professional liability, shall name the City, its officers, agents, volunteers and employees as additional insureds and shall provide primary coverage with respect to the City.

All insurance policies shall: 1) provide that the insurance carrier shall not cancel, terminate or otherwise modify the terms and conditions of said policies except upon thirty (30) days written notice to the City's Contract Administrator; 2) be evidenced by the original Certificate of Insurance, specifying the required coverage and the insurance carrier's standard additional insured form endorsement; and 3) be approved as to form and sufficiency by the City's Contract Administrator. **The original insurance certificates and all extensions to the insurance certificates should be sent to the address identified below and include the CMS#.**

b. If the commercial general liability insurance referred to above is written on a Claims Made Form then, following termination of this Contract, coverage shall survive for a period of not less than five years. Coverage shall also provide for a retroactive date of placement coinciding with the effective date of this Contract.

c. If Contractor employs any person, it shall carry workers' compensation and employer's liability insurance and shall provide a certificate of insurance to the City. The workers' compensation insurance shall: 1) provide that the insurance carrier shall not cancel, terminate or otherwise modify the terms and conditions of said insurance except upon thirty (30) days written notice to the City's Contract Administrator; 2) provide for a waiver of any right of subrogation against City to the extent permitted by law; and 3) shall be approved as to form and sufficiency by the Contract Administrator.

d. Contractor shall forward all insurance documents to:

Public Works Administration  
CMS# QJX3  
2180 Milvia Street, 3<sup>rd</sup> Floor  
Berkeley, CA 94704

6. **CONFORMITY WITH LAW AND SAFETY**

a. Contractor shall observe and comply with all applicable laws, ordinances, codes and regulations of governmental agencies, including federal, state, municipal and local governing bodies having jurisdiction over any or all of the scope of services, including all provisions of the Occupational Safety and Health Act of 1979 as amended, all California Occupational Safety and Health Regulations, and all other applicable federal, state, municipal and local safety regulations. All services performed by Contractor must be in accordance with these laws, ordinances, codes and regulations. Contractor shall release, defend, indemnify and hold harmless City, its officers, agents, volunteers and employees from any and all damages, liability, fines, penalties and consequences from any noncompliance or violation of any laws, ordinances, codes or regulations.

b. If a death, serious personal injury or substantial property damage occurs in connection with the performance of this Contract, Contractor shall immediately notify the City's Risk Manager by telephone. If any accident occurs in connection with this Contract, Contractor shall promptly submit a written report to City, in such form as the City may require. This report shall include the following information: 1) name and address of the injured or deceased person(s); 2) name and address of Contractor's subcontractor, if any; 3) name and address of Contractor's liability insurance carrier; and 4) a detailed description of the accident, including whether any of City's equipment, tools or materials were involved.

c. If a release of hazardous materials or hazardous waste that cannot be controlled occurs in connection with the performance of this Contract, Contractor shall immediately notify the Berkeley Police Department and the City's Health Protection office.

d. Contractor shall not store hazardous materials or hazardous waste within the City of Berkeley without a proper permit from the City.

7. **MATERIAL SAFETY DATA SHEETS**

a. To comply with the City's Hazard Communication Program, Contractor agrees to submit Material Safety Data Sheets (MSDS) for all "hazardous substances" Contractor intends to use in the performance of work under this Contract in any City facility. "Hazardous substances" are defined as those substances so designated by the Director of Industrial Relations pursuant to the Hazardous Substances Information and Training Act (Labor Code sec. 6360 *et seq.*). The MSDS for all products must be submitted to the City before commencing work. The MSDS for a particular product must be reviewed and approved by the City's Risk Manager before Contractor may use that product.

b. City will inform Contractor about hazardous substances to which it may be exposed while on the job site and protective measures that can be taken to reduce the possibility of exposure.

8. **OWNERSHIP OF DOCUMENTS**

a. When this Contract is terminated, Contractor agrees to return to City all documents, drawings, photographs and other written or graphic material, however produced,

that it received from City, its contractors or agents, in connection with the performance of its services under this Contract. All materials shall be returned in the same condition as received.

b. Contractor grants City a royalty-free, exclusive and irrevocable license to reproduce, publish, use and to authorize others to do so, all original computer programs, writing, sound recordings, pictorial reproductions, diagrams, charts, computations, drawings and other works of similar nature produced in the course of the performance of this Contract. Contractor shall not publish any such material without the prior written agreement of the City.

c. With the prior written approval of City's Project Manager, Contractor may retain and use copies of its work for reference and as documentation of its experience and capabilities.

9. **NON-DISCRIMINATION**

Contractor hereby agrees to comply with the provisions of Berkeley Municipal Code ("B.M.C.") Chapter 13.26 as amended from time to time. In the performance of this Contract, Contractor agrees as follows:

a. Contractor shall not discriminate against any employee or applicant for employment because of race, color, religion, ancestry, national origin, age (over 40), sex, pregnancy, marital status, disability, sexual orientation or AIDS.

b. Contractor shall permit the City access to records of employment, employment advertisements, application forms, EEO-1 forms, affirmative action plans and any other documents which, in the opinion of the City, are necessary to monitor compliance with this non-discrimination provision. In addition, Contractor shall fill-out, in a timely fashion, forms supplied by the City to monitor this non-discrimination provision.

10. **INDEPENDENT CONTRACTOR**

a. Contractor shall be deemed at all times to be an independent contractor and shall be wholly responsible for the manner in which Contractor performs the services required of Contractor by the terms of this Contract. Contractor shall be liable for its acts and omissions, and those of its employees and its agents. Nothing contained herein shall be construed as creating an employment, agency or partnership relationship between City and Contractor.

b. Direction from City regarding the subject of this Contract shall be construed as providing for direction as to policy and the result of Contractor's Work only and not as to the means or methods by which such a result is obtained.

c. Except as expressly provided in this Contract, nothing in this Contract shall operate to confer rights or benefits on persons or entities not party to this Contract.

d. Payment of any taxes, including California Sales and use Taxes, levied upon this Contract, the transaction, or the services or goods delivered pursuant hereto, shall be the obligation of Contractor.

11. **CONFLICT OF INTEREST PROHIBITED**

a. In accordance with Government Code section 1090, Berkeley City Charter section 36 and B.M.C. Chapter 3.64, neither Contractor nor any employee, officer, director, partner or member of Contractor, or immediate family member of any of the preceding, shall have served as an elected officer, an employee, or a City board, committee or commission

member, who has directly or indirectly influenced the making of this Contract.

b. In accordance with Government Code section 1090 and the Political Reform Act, Government Code section 87100 *et seq.*, no person who is a director, officer, partner, trustee, employee or consultant of the Contractor, or immediate family member of any of the preceding, shall make or participate in a decision made by the City or a City board, commission or committee, if it is reasonably foreseeable that the decision will have a material effect on any source of income, investment or interest in real property of that person or Contractor.

c. Interpretation of this section shall be governed by the definitions and provisions used in the Political Reform Act, Government Code section 87100 *et seq.*, its implementing regulations, manuals and codes, Government Code section 1090, Berkeley City Charter section 36 and B.M.C. Chapter 3.64.

12. **NUCLEAR FREE BERKELEY**

Contractor agrees to comply with B.M.C. Chapter 12.90, the Nuclear Free Berkeley Act, as amended from time to time.

13. **OPPRESSIVE STATES CONTRACTING PROHIBITION**

a. In accordance with Resolution No. 59,853-N.S., Contractor certifies that it has no contractual relations with, and agrees during the term of this Contract to forego contractual relations to provide personal services to, the following entities:

- (1) The governing regime in any Oppressive State.
- (2) Any business or corporation organized under the authority of the governing regime of any Oppressive State.
- (3) Any individual, firm, partnership, corporation, association, or any other commercial organization, and including parent-entities and wholly-owned subsidiaries (to the extent that their operations are related to the purpose of its contract with the City), for the express purpose of assisting in business operations or trading with any public or private entity located in any Oppressive State.

b. For purposes of this Contract, the Tibet Autonomous Region and the provinces of Abo, Kham, and U-Tsang shall be deemed oppressive states.

c. Contractor's failure to comply with this section shall constitute a default of this Contract and City may terminate this Contract pursuant to Section 3. In the event that the City terminates Contractor due to a default under this provision, City may deem Contractor a non-responsible bidder for not more than five (5) years from the date this Contract is terminated.

14. **RECYCLED PAPER FOR WRITTEN REPORTS**

If Contractor is required by this Contract to prepare a written report or study, Contractor shall use recycled paper for said report or study when such paper is available at a cost of not more than ten percent more than the cost of virgin paper, and when such paper is available at the time it is needed. For the purposes of this Contract, recycled paper is paper that contains at least 50% recycled product. If recycled paper is not available, Contractor shall use white paper. Written reports or studies prepared under this Contract shall be printed on both sides of the page whenever practical.



15. **BERKELEY LIVING WAGE ORDINANCE**

a. Contractor hereby agrees to comply with the provisions of the Berkeley Living Wage Ordinance, B.M.C. Chapter 13.27. If Contractor is currently subject to the Berkeley Living Wage Ordinance, as indicated by the Living Wage Certification form, attached hereto, Contractor will be required to provide all eligible employees with City mandated minimum compensation during the term of this Contract, as defined in B.M.C. Chapter 13.27, as well as comply with the terms enumerated herein. Contractor expressly acknowledges that, even if Contractor is not currently subject to the Living Wage Ordinance, cumulative contracts with City may subject Contractor to the requirements under B.M.C. Chapter 13.27 in subsequent contracts.

b. If Contractor is currently subject to the Berkeley Living Wage Ordinance, Contractor shall be required to maintain monthly records of those employees providing service under the Contract. These records shall include the total number of hours worked, the number of hours spent providing service under this Contract, the hourly rate paid, and the amount paid by Contractor for health benefits, if any, for each of its employees providing services under the Contract. These records are expressly subject to the auditing terms described in Section 16.

c. If Contractor is currently subject to the Berkeley Living Wage Ordinance, Contractor shall include the requirements thereof, as defined in B.M.C. Chapter 13.27, in any and all subcontracts in which Contractor engages to execute its responsibilities under this Contract. All subcontractor employees who spend 25% or more of their compensated time engaged in work directly related to this Contract shall be entitled to a living wage, as described in B.M.C. Chapter 13.27 and herein.

d. If Contractor fails to comply with the requirements of this Section, the City shall have the rights and remedies described in this Section, in addition to any rights and remedies provided by law or equity.

Contractor's failure to comply with this Section shall constitute a material breach of the Contract, upon which City may terminate this Contract pursuant to Section 3. In the event that City terminates Contractor due to a default under this provision, City may deem Contractor a non-responsible bidder for not more than five (5) years from the date this Contract is terminated.

In addition, at City's sole discretion, Contractor may be responsible for liquidated damage in the amount of \$50 per employee per day for each and every instance of an underpayment to an employee. It is mutually understood and agreed that Contractor's failure to pay any of its eligible employees at least the applicable living wage rate will result in damages being sustained by the City; that the nature and amount of the damages will be extremely difficult and impractical to fix; that the liquidated damage set forth herein is the nearest and most exact measure of damage for such breach that can be fixed at this time; and that the liquidated damage amount is not intended as a penalty or forfeiture for Contractor's breach. City may deduct any assessed liquidated damages from any payments otherwise due Contractor.

16. **BERKELEY EQUAL BENEFITS ORDINANCE**

a. Contractor hereby agrees to comply with the provisions of the Berkeley Equal Benefits Ordinance, B.M.C. Chapter 13.29. If Contractor is currently subject to the Berkeley Equal Benefits Ordinance, as indicated by the Equal Benefits Certification form,

attached hereto, Contractor will be required to provide all eligible employees with City mandated equal benefits, as defined in B.M.C. Chapter 13.29, during the term of this contract, as well as comply with the terms enumerated herein.

b. If Contractor is currently or becomes subject to the Berkeley Equal Benefits Ordinance, Contractor agrees to provide the City with all records the City deems necessary to determine compliance with this provision. These records are expressly subject to the auditing terms described in Section 17 of this contract.

c. If Contractor fails to comply with the requirements of this Section, City shall have the rights and remedies described in this Section, in addition to any rights and remedies provided by law or equity.

Contractor's failure to comply with this Section shall constitute a material breach of the Contract, upon which City may terminate this contract pursuant to Section 3. In the event the City terminates this contract due to a default by Contractor under this provision, the City may deem Contractor a non-responsible bidder for not more than five (5) years from the date this Contract is terminated.

In addition, at City's sole discretion, Contractor may be responsible for liquidated damages in the amount of \$50.00 per employee per day for each and every instance of violation of this Section. It is mutually understood and agreed that Contractor's failure to provide its employees with equal benefits will result in damages being sustained by City; that the nature and amount of these damages will be extremely difficult and impractical to fix; that the liquidated damages set forth herein is the nearest and most exact measure of damages for such breach that can be fixed at this time; and that the liquidated damage amount is not intended as a penalty or forfeiture for Contractor's breach. City may deduct any assessed liquidated damages from any payments otherwise due Contractor.

#### 17. AUDIT

Pursuant to Section 61 of the Berkeley City Charter, the City Auditor's Office may conduct an audit of Contractor's financial, performance and compliance records maintained in connection with the operations and services performed under this Contract. In the event of such audit, Contractor agrees to provide the City Auditor with reasonable access to Contractor's employees and make all such financial, performance and compliance records available to the Auditor's Office. City agrees to provide Contractor an opportunity to discuss and respond to any findings before a final audit report is filed.

#### 18. SETOFF AGAINST DEBTS

Contractor agrees that City may deduct from any payments due to Contractor under this Contract any monies that contractor owes City under any ordinance, contract or resolution for any unpaid taxes, fees, licenses, unpaid checks or other amounts.

#### 19. CONFIDENTIALITY OF INFORMATION

Contractor understands and agrees that, in the performance of the services under this Contract or in the contemplation thereof, Contractor may have access to private or confidential information which may be owned or controlled by City and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to City. Contractor agrees that all information disclosed by City to Contractor shall be held in confidence and used only in performance of the Contract. Contractor shall exercise the same standard of care to protect such information as a reasonably prudent consultant would

use to protect its own proprietary data.

20. **GOVERNING LAW**

This Contract shall be deemed to have been executed in Alameda County. The formation, interpretation and performance of this Contract shall be governed by the laws of the State of California, excluding its conflict of laws rules. Venue for all litigation relative to the formation, interpretation and performance of this Contract shall be in Alameda County, California.

21. **AMENDMENTS**

The terms and conditions of this Contract shall not be altered or otherwise modified except by a written amendment to this Contract executed by City and Contractor.

22. **ENTIRE CONTRACT**

a. The terms and conditions of this Contract, all exhibits attached and any documents expressly incorporated by reference represent the entire Contract between the parties with respect to the subject matter of this Contract. This Contract shall supersede any and all prior contracts, oral or written, regarding the subject matter between City and Contractor. No other contract, statement, or promise relating to the subject matter of this Contract shall be valid or binding except by a written amendment to this Contract.

b. If any conflicts arise between the terms and conditions of this Contract and the terms and conditions of the attached exhibits or any documents expressly incorporated, the terms and conditions of this Contract shall control.

23. **SEVERABILITY**

If any part of this Contract or the application thereof is declared invalid for any reason, such invalidity shall not affect the other provisions of this Contract which can be given effect without the invalid provision or application, and to this end the provisions of this Contract are declared to be severable.

24. **WAIVER**

Failure of City to insist on strict performance shall not constitute a waiver of any of the provisions of this Contract or a waiver of any other default of Contractor.

25. **ASSIGNMENT**

Contractor may not assign this Contract without the prior written consent of the City, except that Contractor may assign its right to any money due or to become due hereunder.

26. **EFFECT ON SUCCESSORS AND ASSIGNS**

This Contract shall be binding on and inure to the benefit of the heirs, executors, administrators, successors, and assigns of the parties hereto.

27. **CONSULTANTS TO SUBMIT STATEMENTS OF ECONOMIC INTEREST**

The City's Conflict of Interest Code, Resolution No. 60,788-N.S., as amended, requires consultants who make a governmental decision or act in a staff capacity as defined in

2 Cal. Code of Regs. §18700, as amended from time to time, to disclose conflicts of interest by filing a Statement of Economic Interest (Form 700). Consultants agree to file such statements with the City Clerk at the beginning of the contract period and upon termination of the Contractor's service.

28. **SECTION HEADINGS**

The sections and other headings of this Contract are for convenience of reference only and shall be disregarded in the interpretation of this Contract.

29. **CITY BUSINESS LICENSE, PAYMENT OF TAXES, TAX I.D. NUMBER**

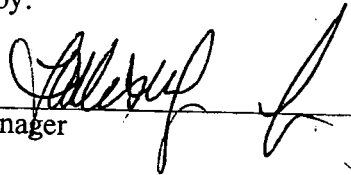
Contractor has obtained a City business license as required by B.M.C. Chapter 9.04, and its license number is written below; or, Contractor is exempt from the provisions of B.M.C. Chapter 9.04 and has written below the specific B.M.C. section under which it is exempt. Contractor shall pay all state and federal income taxes and any other taxes due. **Contractor certifies under penalty of perjury that the taxpayer identification number written below is correct.**

Business License Number 10 00032787  
B.M.C. § \_\_\_\_\_  
Taxpayer ID Number: XXXXXXXXXX

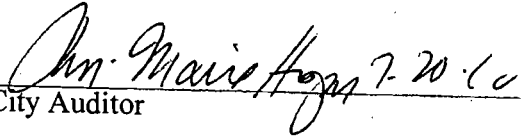
IN WITNESS WHEREOF, City and Contractor have executed this Contract as of the date written on the first paragraph of this Contract.

FOR CITY OF BERKELEY

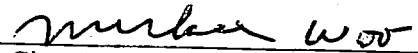
Signed by:

  
\_\_\_\_\_  
City Manager

Countersigned by:

  
\_\_\_\_\_  
City Auditor

~~FX~~ approved as to form by:

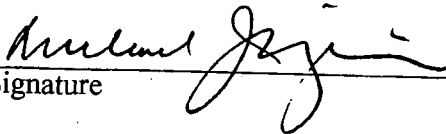
  
\_\_\_\_\_  
City Attorney for City of Berkeley  
6/01

Attested by:


  
\_\_\_\_\_  
for City Clerk

CONTRACTOR

\_\_\_\_\_  
Recology-Grover Environmental Products

  
\_\_\_\_\_  
Signature

MICHAEL SANGIACOMO  
Print Name

Tax Identification # 

Berkeley Business License # 10 00032987

Incorporated: Yes  No

Certified Woman Business Enterprise: Yes  No

Certified Minority Business Enterprise: Yes  No

If yes, state ethnicity: \_\_\_\_\_

Certified Disadvantaged Business Enterprise: Yes  No

## EXHIBIT A

### SCOPE OF SERVICES

#### 1. Services to be Provided

Contractor shall receive process and handle materials listed below, dispose of contaminants, and market end products to maximize the City's waste diversion.

#### 2. Materials

"City of Berkeley source-separated organic materials" shall mean all of the following materials that are received at the City of Berkeley Transfer Station:

- Plant debris (leaves, grass, brush, prunings, weeds, and other yard waste)
- Unpainted and untreated wood, including pallets, wooden packing crates, and scrap lumber, with or without nails
- Unpainted sheet rock
- Food and food processing waste (includes pre-and post consumer food residuals of vegetative, mammalian and non-mammalian origin generated in the residential, institutional and commercial sectors)
- Food-soiled/wet/waxed cardboard
- Food-soiled, wet or otherwise non-recyclable mixed paper
- Paper gable-top cartons, such as are used for milk and juice
- Approved bioplastics including compostable bags

#### 3. Specifications

The Contractor must accept individual pieces of City of Berkeley source-separated organic materials up to 10 inches in diameter and 10 feet in length. The Contractor's level of acceptable contamination must not be lower than 5% or higher than 10%. The Contractor shall accept up to 3500 tons per month of City of Berkeley source-separated organic materials. The contractor shall accept additional tons per month, upon mutual agreement of City and Contractor.

#### 4. City Commitment of Materials

The City of Berkeley shall make available to the Contractor no less than 70% of all City of Berkeley source-separated organic materials received during any single month at the City of Berkeley Solid Waste Transfer Station, that meet the specifications set forth in paragraph 3 of this Exhibit.

**5. Weighing of Materials**

Contractor shall weigh all City of Berkeley source-separated organic materials to be delivered to and received by the Contractor's processing facility. Contractor shall provide to the City weight records for each load of City of Berkeley source-separated organic materials to be delivered to and received by the Contractor's processing facility.

**6. Hours of Operation**

Contractor's facility located at 3909 Gaffery Road, Vernalis, CA 95385 shall be available to receive materials from 5:00 a.m. to 4:00 p.m. Monday through Saturday, except for New Years' Day, Thanksgiving Day and Christmas Day. The majority of the shipments will be Monday through Friday.

**7. End Products**

**A. End Uses**

Unless otherwise requested in writing by the City of Berkeley, Contractor shall process at least 80% of the delivered City of Berkeley source-separated organic materials into soil amendments, such as compost and mulch. Soil amendments do not include alternative daily cover. The remainder may be processed into recycled products other than soil amendments. End products, other than residues, may not be used in or at a landfill for any purpose other than final vegetative cover of a capped portion of the landfill, without prior written consent from City.

**B. End Product Standards**

Contractor shall ensure that said end products meet federal and state minimum compost and horticulture industry standards. Contractor shall perform routine sampling procedures and laboratory analyses as required by State of California compost regulations and applicable permits, shall send the results to the City in a timely manner, and shall inform the City of whether the end products meet federal and state minimum standards based on the analyses performed. Contractor shall participate in the US. Composting Council Seal of Testing Assurance (STA) program, and provide proof of participation and a Compost Technical Data Sheet annually.

**8. Documentation**

**A. Monthly Tonnage Summary Reports**

Contractor shall provide City of Berkeley with monthly tonnage summary reports, in a form approved by the City of Berkeley. Each tonnage summary shall report the quantities, in tons, of the following:

- City of Berkeley source-separated organic materials received during the period covered
- Any other source-separated organic materials generated in Berkeley and delivered to Contractor's facility by private haulers
- Percent residue (by weight) and tons of City of Berkeley source-separated organic materials that require disposal
- Soil amendments produced (e.g. compost and mulch)

- Other end products produced
- Amount and type of finished product delivered to the City of Berkeley

Said tonnage summary reports shall be provided to the City of Berkeley along with the monthly invoice for services.

#### B. Accounting Methods

The City of Berkeley shall have the right of approval of Contractor's methods of accounting for tonnages of City of Berkeley source-separated organic materials received by Contractor. Said approval shall not be unreasonably withheld.

#### C. Processing Facility Compliance

The Contractor shall operate and maintain the processing facility used to process City of Berkeley source-separated organic materials into products in compliance with all applicable federal, state and local environmental laws and regulations, permits, and Occupational Safety and Health (OSHA) requirements. The Contractor shall obtain all permits; permit amendments and extensions necessary for continual functioning of the facility. The City retains the right to inspect all permits granted for the Contractor's facility.

#### D. Records Inspection

The City of Berkeley shall have the right to inspect all records needed to verify information provided by the Contractor. Failure to provide access to such records within 72 hours of written request from the City of Berkeley is cause for immediate termination of the agreement with the City.

### 9. **Marketing of End Products**

Except for any end products to be provided by Contractor for use by the City of Berkeley, marketing and distribution of end products shall be the sole responsibility of Contractor.

### 10. **Ownership of Carbon Offsets**

Should Contractor apply for carbon credits for material from the processing of the City of Berkeley organics, any monetary value or actual credits will be split between the City of Berkeley and the Contractor on a 50/50 basis, subject to negotiation.

### 11. **Provision of End Products to City of Berkeley**

#### A. Amount of End Products to be Made Available to City

The amount of end products the Contractor is obliged to make available to the City of Berkeley without charge in any month shall not exceed five percent (5%), by weight, of the average monthly amount of City of Berkeley source-separated organic materials received by the Contractor's processing facility from the Berkeley Transfer Station.



B. Provision of End Products to City

Contractor shall deliver to the City of Berkeley end products at no cost to the City of Berkeley, upon written request. Said end products shall be comprised of compost or mulch, in proportions and amounts to be requested by the City of Berkeley. The City reserves the right to have the Contractor deliver said end products to locations within the City of Berkeley, provided that reasonable, safe access and egress to the site(s) are provided.

## EXHIBIT B

### PAYMENT

- A. City shall pay to Contractor \$13.50 per ton for organic waste hauling, and \$20.00 per ton tipping fee for organic waste processing, for the period of August 1, 2010 to June 30, 2011.
- B. For each subsequent fiscal year – commencing each July 1st, City shall pay an amount equal to the original contract price plus a cost of living increase, applied to non fuel costs (the organic waste hauling and organic waste processing fees), using the San Francisco Bay Area All Consumer Price Index. Changes in the fuel cost will be compensated through the Fuel Escalator provision below. A negative Consumer Price Index shall not cause a reduction in the then current per ton rates.
- C. For material that City delivers to Contractor's processing facility, City shall pay the tipping fee that has been established for that Fiscal Year.
- D. Fuel Index Escalator: To protect the Contractor against inflationary increases in diesel fuel prices over which neither the City nor the Contractor has control a Fuel Index Escalator will be used. For the purposes of this Contract, the initial Base Price for low sulfur diesel is established at \$3.10 per gallon.

Beginning September 1, 2010 and each month of the agreement thereafter, in addition to the organic waste hauling and organic waste processing fees, City shall compensate Contractor for any difference in excess of the fuel Base Price, at the rate of six (6) cents per ton for each full five (5) cent per gallon increment above the Base Price. The index for the fuel price shall be the U.S. Energy Information Administration Oil Price Information Service Index, Weekly Retail On-Highway Diesel Prices for California. The price shall be the one closest to the last day of the month invoiced.

If fuel prices should subsequently drop, the fuel surcharge will be reduced at the rate of six (6) cents per ton for each five (5) cent decrease. A drop in fuel prices below the Base Rate will not reduce the contract payments.

These additional fuel charges will not necessitate an amendment to the Agreement, and will be made by regular invoice procedures and shall be calculated and provided by Contractor.

- E. Contractor shall provide a maximum of 5% by weight of materials delivered as finished compost to the City free of charge.
- F. City shall make payments on a monthly basis and within thirty (30) days of an invoice that includes the appropriate monthly report specified in exhibit A.

**CONTRACT: RECOLOGY/GROVER ENVIRONMENTAL PRODUCTS  
EVIDENCE OF COMPETITIVE SOLICITATION**

RFP: Specification No. 10-10496-C: Processing Source Separated Organic Materials, with Hauling Option

	Vendor 1 *	Vendor 2	Vendor 3*	Vendor 4	Vendor 5**
<b>Vendor</b>	Grover Landscape Services, Inc.	Northern Recycling	Recology	West Contra Costa Landfill	East Bay Municipal Utility District
<b>Process type</b>	Aerobic	Aerobic	Aerobic	Aerobic	Anaerobic
<b>Cost per ton</b>					
To receive	\$20.00	\$24.50	\$33.00	\$62.50	\$50.00
To transport	\$13.50	\$15.00	\$11.90	\$7.25	Not offered
Added cost					Clean & grind at a 3rd facility
<b>Total cost/ton</b>	<b>\$33.50</b>	<b>\$39.50</b>	<b>\$44.90</b>	<b>\$69.75</b>	

\* Recology purchased the service portion of Grover Landscape Services to form Recology/Grover Environmental Products. Recology/Grover will provide service at the Grover Landscape Services bid price.

\*\* East Bay Municipal Utility District would accept only commercial food scraps. Other vendors accept all City's materials.

**NON-DISCRIMINATION/WORKFORCE COMPOSITION**

FOR ALL CONTRACTS: 5 OR MORE EMPLOYEES

To assist the City of Berkeley in implementing its Non-Discrimination policy, you're requested to furnish information regarding your personnel, as indicated below, and return this form to the City Department handling your contract.

**ORGANIZATION** Recology Grover Environmental Products

**ADDRESS** 235 N. First St, Dixon, CA 95620 (Administrative & M/A only)

**BUSINESS LICENSE #** 10 00032487

*You may complete this online & make entries in these cells, they will be automatically totaled at the bottom; or print the form & complete by hand/typewriter.*

Occupational Category (see page 2 for definitions)	ALL EMPLOYEES		WHITE		BLACK		ASIAN		HISPANIC		OTHER (specify)**	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1st/Mid-Level Managers	2		2									
Professionals	1		1									
Sales Workers	3		3									
Protective Service Workers												
Para-professionals												
Office/Clerical	2	2	2	2								
Skilled Craft Workers	4		4									
Operatives (Semi-Skilled)	25		14						10			1
Laborers (Unskilled)	4								4			
<b>Totals</b>	<b>41</b>	<b>2</b>	<b>26</b>	<b>2</b>					<b>14</b>			<b>1</b>

\*Specify other occupation:

\*\*Specify other ethnicity: American Indian/Alaskan Native

Is your business MBE/WBE/DBE certified?  No  Yes

If Yes, by what agency?

If Yes, please specify:  or ethnic identification: \_\_\_\_\_

Do you have a policy of non-discrimination?  Yes  No

Signature \_\_\_\_\_

Print/Type Name of Signer Greg Pryor - General Manager

Date 7/8/20

Verified by \_\_\_\_\_

**City of Berkeley Contract Administrator**

**CITY OF BERKELEY**  
**Nuclear Free Zone Disclosure Form**

I (we) certify that:

1. I am (we are) fully cognizant of any and all contracts held, products made or otherwise handled by this business entity, and of any such that are anticipated to be entered into, produced or handled for the duration of its contract(s) with the City of Berkeley. (To this end, more than one individual may sign this disclosure form, if a description of which type of contracts each individual is cognizant is attached.)
2. I (we) understand that Section 12.90.070 of the Nuclear Free Berkeley Act (Berkeley Municipal Code Ch. 12.90; Ordinance No. 5784-N.S.) prohibits the City of Berkeley from contracting with any person or business that knowingly engages in work for nuclear weapons.
3. I (we) understand the meaning of the following terms as set forth in Berkeley Municipal Code Section 12.90.130:  

"Work for nuclear weapons" is any work the purpose of which is the development, testing, production, maintenance or storage of nuclear weapons or the components of nuclear weapons; or any secret or classified research or evaluation of nuclear weapons; or any operation, management or administration of such work.

"Nuclear weapon" is any device, the intended explosion of which results from the energy released by reactions involving atomic nuclei, either fission or fusion or both. This definition of nuclear weapons includes the means of transporting, guiding, propelling or triggering the weapon if and only if such means is destroyed or rendered useless in the normal propelling, triggering, or detonation of the weapon.

"Component of a nuclear weapon" is any device, radioactive or non-radioactive, the primary intended function of which is to contribute to the operation of a nuclear weapon (or be a part of a nuclear weapon).
4. Neither this business entity nor its parent nor any of its subsidiaries engages in work for nuclear weapons or anticipates entering into such work for the duration of its contract(s) with the City of Berkeley.

Based on the foregoing, the undersigned declares under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Printed Name: Greg Pryor Title: General Manager  
Signature: [Signature] Date: 7/8/2010  
Business Entity: Recology Grover Environmental Products  
Contract Description/Specification No. Hauling/Processing Organic Waste  
Attachment C

**CITY OF BERKELEY**  
**Oppressive States Compliance Statement for Commodities**

The undersigned, an authorized agent of Recology Greener Environmental Products (hereafter "Vendor"), has had an opportunity to review the requirements of Berkeley City Council Resolution No. 59,853-N.S (hereafter "Resolution"). Vendor understands and agrees that the City may choose with whom it will maintain business relations and may refrain from contracting with those Business Entities which maintain business relationships with morally repugnant regimes. Vendor understands the meaning of the following terms used in the Resolution:

"Business Entity" means "any individual, firm, partnership, corporation, association, or any other commercial organization, including parent-entities and wholly-owned subsidiaries" (to the extent that their operations are related to the purpose of the contract with the City).

"Commodities" includes, but is not limited to, any tangible supplies, goods, vehicles, machinery or equipment.

"Oppressive State" means: **Tibet Autonomous Region and the Provinces of Adu, Kham, and U-Tsang,**

The commodities which vendor proposes to supply to the City are not manufactured, assembled, extracted, harvested or refined in any Oppressive State. Vendor understands that it is not eligible to receive or retain a City contract if at the time the contract is executed, or at any time during the term of the contract, it buys, sells, leases or distributes Commodities in the conduct of business with, or provides Personal Services to:

- a. The governing regime in any Oppressive State.
- b. Any business or corporation organized under the authority of the governing regime of any Oppressive State.
- c. Any person for the express purpose of assisting in business operations or trading with any public or private entity located in any Oppressive State.

Vendor further understands and agrees that Vendor's failure to comply with the Resolution shall constitute a default of the contract and the City Manager may terminate the contract and bar Vendor from bidding on future contracts with the City for five (5) years from the effective date of the contract termination.

The undersigned is familiar with, or has made a reasonable effort to become familiar with, Vendor's business structure and the geographic extent of its operations. By executing this Statement, Vendor certifies that it complies with the requirements of the Resolution and that if any time during the term of the contract it ceases to comply, Vendor will promptly notify the City Manager in writing.

Based on the foregoing, the undersigned declares under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Printed Name: Gregory Bryant Title: General Manager

Signed: [Signature] Date: 7/8/2010

Business Entity: Recology Greener Environmental Products

I am unable to execute this Statement; however, Vendor is exempt under Section VII of the Resolution. I have attached a separate statement explaining the reason(s) Vendor cannot comply and the basis for any requested exemption.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Contract description/Specification No.: Hauling / Processing Organic Waste

**Attachment D**

**CITY OF BERKELEY**  
**Living Wage Certification for Providers of Personal Services**

**TO BE COMPLETED BY ALL PERSONS OR ENTITIES ENGAGING IN A CONTRACT FOR PERSONAL SERVICES WITH THE CITY OF BERKELEY.**

The Berkeley Municipal Code Chapter 13.27, Berkeley's Living Wage Ordinance (LWO), provides that contractors who engage in a specified amount of business with the City (except where specifically exempted) under contracts which furnish services to or for the City in any twelve (12) month period of time shall comply with all provisions of this Ordinance. The LWO requires a City contractor to provide City mandated minimum compensation to all eligible employees, as defined in the Ordinance. In order to determine whether this contract is subject to the terms of the LWO, please respond to the questions below. Please note that the LWO applies to those contracts where the contractor has achieved a cumulative dollar contracting amount with the City. Therefore, even if the LWO is inapplicable to this contract, subsequent contracts may be subject to compliance with the LWO. Furthermore, the contract may become subject to the LWO if the status of the Contractor's employees change (i.e. additional employees are hired) so that Contractor falls within the scope of the Ordinance.

**Section I.**

**1. IF YOU ARE A FOR-PROFIT BUSINESS, PLEASE ANSWER THE FOLLOWING QUESTIONS**

- a. During the previous twelve (12) months, have you entered into contracts, including the present contract, bid, or proposal, with the City of Berkeley for a cumulative amount of \$25,000.00 or more?  
YES  NO

If no, this contract is NOT subject to the requirements of the LWO, and you may continue to Section II. If yes, please continue to question 1(b).

- b. Do you have six (6) or more employees, including part-time and stipend workers?  
YES  NO

If you have answered, "YES" to questions 1(a) and 1(b) this contract IS subject to the LWO. If you responded "NO" to 1(b) this contract IS NOT subject to the LWO. Please continue to Section II.

**2. IF YOU ARE A NON-PROFIT BUSINESS, AS DEFINED BY SECTION 501(C) OF THE INTERNAL REVENUE CODE OF 1954, PLEASE ANSWER THE FOLLOWING QUESTIONS.**

- a. During the previous twelve (12) months, have you entered into contracts, including the present contract, bid or proposal, with the City of Berkeley for a cumulative amount of \$100,000.00 or more?  
YES  NO

If no, this Contract is NOT subject to the requirements of the LWO, and you may continue to Section II. If yes, please continue to question 2(b).

- b. Do you have six (6) or more employees, including part-time and stipend workers?  
YES  NO

If you have answered, "YES" to questions 2(a) and 2(b) this contract IS subject to the LWO. If you responded "NO" to 2(b) this contract IS NOT subject to the LWO. Please continue to Section II.

**Section II**

**Please read, complete, and sign the following:**

THIS CONTRACT IS SUBJECT TO THE LIVING WAGE ORDINANCE.

THIS CONTRACT IS NOT SUBJECT TO THE LIVING WAGE ORDINANCE.

The undersigned, on behalf of himself or herself individually and on behalf of his or her business or organization, hereby certifies that he or she is fully aware of Berkeley's Living Wage Ordinance, and the applicability of the Living Wage Ordinance, and the applicability of the subject contract, as determined herein. The undersigned further agrees to be bound by all of the terms of the Living Wage Ordinance, as mandated in the Berkeley Municipal Code, Chapter 13.27. If, at any time during the term of the contract, the answers to the questions posed herein change so that Contractor would be subject to the LWO, Contractor will promptly notify the City Manager in writing. Contractor further understands and agrees that the failure to comply with the LWO, this certification, or the terms of the Contract as it applies to the LWO, shall constitute a default of the Contract and the City Manager may terminate the contract and bar Contractor from future contracts with the City for five (5) years from the effective date of the Contract termination. If the contractor is a for-profit business and the LWO is applicable to this contract, the contractor must pay a living wage to all employees who spend 25% or more of their compensated time engaged in work directly related to the contract with the City. If the contractor is a non-profit business and the LWO is applicable to this contract, the contractor must pay a living wage to all employees who spend 50% or more of their compensated time engaged in work directly related to the contract with the City.

These statements are made under penalty of perjury under the laws of the state of California.

Printed Name: Greg Boyer Title: General Manager  
Signature: [Handwritten Signature] Date: 7/8/2010  
Business Entity: Recology Greiner Environmental Products  
Contract Description/Specification No: Hauling / Processing Organic Waste

**Section III**

• \*\* FOR ADMINISTRATIVE USE ONLY - PLEASE PRINT CLEARLY \*\* •

I have reviewed this Living Wage Certification form, in addition to verifying Contractor's total dollar amount contract commitments with the City in the past twelve (12) months, and determined that this Contract IS / IS NOT (circle one) subject to Berkeley's Living Wage Ordinance.

Department Name \_\_\_\_\_

Department Representative \_\_\_\_\_



To be completed by  
Contractor/Vendor

Form EBO-1  
CITY OF BERKELEY



**CERTIFICATION OF COMPLIANCE WITH EQUAL BENEFITS ORDINANCE**

If you are a **contractor**, return this form to the originating department/project manager. If you are a **vendor** (supplier of goods), return this form to the Purchasing Division of the Finance Dept.

**SECTION 1. CONTRACTOR/VENDOR INFORMATION**

Name: <u>Recology Greener Environmental Products</u>		Vendor No.:	
Address: <u>235 N. First St</u>	City: <u>Dixon</u>	State: <u>CA</u>	ZIP: <u>95620</u>
Contact Person: <u>Greg Pryor</u>		Telephone: <u>707-678-4718</u>	
E-mail Address: <u>G.Pryor@Recology.com</u>		Fax No.: <u>707-678-5095</u>	

**SECTION 2. COMPLIANCE QUESTIONS**

- A. The EBO is inapplicable to this contract because the contractor/vendor has no employees.  
 Yes  No (If "Yes," proceed to Section 5; if "No," continue to the next question.)
- B. Does your company provide (or make available at the employees' expense) any employee benefits?  
 Yes  No  
If "Yes," continue to Question C.  
If "No," proceed to Section 5. (The EBO is not applicable to you.)
- C. Does your company provide (or make available at the employees' expense) any benefits to the spouse of an employee?.....  Yes  No
- D. Does your company provide (or make available at the employees' expense) any benefits to the domestic partner of an employee?.....  Yes  No  
**If you answered "No" to both** Questions C and D, proceed to Section 5. (The EBO is not applicable to this contract.)  
**If you answered "Yes" to both** Questions C and D, please continue to Question E.  
**If you answered "Yes" to Question C and "No" to Question D**, please continue to Section 3.
- E. Are the benefits that are available to the spouse of an employee identical to the benefits that are available to the domestic partner of the employee? .....  Yes  No  
**If you answered "Yes,"** proceed to Section 4. (You are in compliance with the EBO.)  
**If you answered "No,"** continue to Section 3.

**SECTION 3. PROVISIONAL COMPLIANCE**

- A. Contractor/vendor is not in compliance with the EBO now but will comply by the following date:
- By the first effective date after the first open enrollment process following the contract start date, not to exceed two years, if the Contractor submits evidence of taking reasonable measures to comply with the EBO; or
  - At such time that administrative steps can be taken to incorporate nondiscrimination in benefits in the Contractor's infrastructure, not to exceed three months; or
  - Upon expiration of the contractor's current collective bargaining agreement(s).
- B. If you have taken all reasonable measures to comply with the EBO but are unable to do so, do you agree to provide employees with a cash equivalent?.....  Yes  No

\* The cash equivalent is the amount of money your company pays for spousal benefits that are unavailable for domestic partners.

**SECTION 4. REQUIRED DOCUMENTATION**

At time of issuance of purchase order or contract award, you may be required by the City to provide documentation (copy of employee handbook, eligibility statement from your plans, insurance provider statements, etc.) to verify that you do not discriminate in the provision of benefits.

**SECTION 5. CERTIFICATION**

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that I am authorized to bind this entity contractually. By signing this certification, I further agree to comply with all additional obligations of the Equal Benefits Ordinance that are set forth in the Berkeley Municipal Code and in the terms of the contract or purchase order with the City.

Executed this 8<sup>th</sup> day of July, in the year 2010, at Dixon, CA  
(City) (State)

Greg Pryor  
Name (please print)

[Signature]  
Signature

General Manager  
Title

[Redacted]  
Federal ID or Social Security Number

**FOR CITY OF BERKELEY USE ONLY**

- Non-Compliant (The City may not do business with this contractor/vendor)
- One-Person Contractor/Vendor       Full Compliance       Reasonable Measures
- Provisional Compliance Category, Full Compliance by Date: \_\_\_\_\_

Staff Name (Sign and Print): \_\_\_\_\_ Date: \_\_\_\_\_

**EXPENDITURE NON-CONSTRUCTION CONTRACT REVIEW FORM: CONTRACT AMENDMENT**

Original CMS # **QJXX3**  
(To be filled in by department)

Amendment CMS # **XPQXX**  
(To be filled in by department)

Contract # **8389 A**  
(As originally issued by Auditor)

CONTRACTOR NAME: Recology-Grover Environmental Products

**RECEIVED**  
11/4/12

This contract package contains:

**3 Original Contracts (Department, Vital Record and Vendor) in folders**

\*The Vital Record contract **MUST** be in a folder.

\*Optional: In lieu of folders, Department and Vendor copies may be assembled with an Acco-fastener.

	With Original Contract	Attached	Waiver Attached	Not Required
1. Living Wage Certification (If not submitted with original contract) <b>LWO use current form on web*</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Certification of Compliance with Equal Benefits Ordinance (if not submitted with original contract) <b>EBO use current form on web*</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Federally Funded Project Requirement <b>ONLY</b> : Debarment status printout (\$25,000 and above)		<input type="checkbox"/>		<input checked="" type="checkbox"/>
4. Insurance Certificate/s AND Endorsement/s OR Insurance Waiver/s (originals, not copies)		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Authorizing Council Resolution # <u>65.915-N.S. 10/16/12</u>		<input checked="" type="checkbox"/>		<input type="checkbox"/>

Requisition # 163772 (Hard copy attached) Purchase Order # \_\_\_\_\_  
 Budget Code: **820-5612-432-3038 \$217,368** for FY13  
**820-5613-432-3038 \$53,360** for FY13 Council Approved Amount \$ 6,854,818.  
**820-5607-432-3038 \$212,536** for FY13  
645-5612-432-3038 \$70,000

Was there any advance payment? Yes  No  If Yes, Advanced Amount \$ \_\_\_\_\_  
 Original contract amount \$ 3,410,950  
 Amount/s added by previous amendment/s (if applicable) \$ NA  
 Amount added by this amendment \$ 3,443,868  
 Total contract amount after amendment \$ 6,854,818

**Routing and signatures:**

All elements of the contract package, including information provided above and on Amendment Data Transmittal form (page 2), have been reviewed for completeness and accuracy and evidenced by the following signatures:

- [Signature] Public Works 981-6357 Nov. 16, 2012  
 Project Manager - Andy Schneider Department Phone No. Date
- [Signature] Date 11/15/12  
 Department Administrative Officer/Accounting
- [Signature] Date 11-15-12  
 Manager of Engineering (PW construction only)
- [Signature] Date 11/16/12  
 Department Head
- [Signature] Date 11/30/12  
 Contract Administrator
- [Signature] Date \_\_\_\_\_  
 Budget Manager

*Executed 12/3/12*

**RECEIVED**  
DEC -4 2012  
**CITY AUDITOR**

Routing continues to the following persons, who sign directly on the contract:

- City Manager (Will not sign unless all signatures and dates appear above)
- City Auditor (Initial Am 12-4-12)
- City Clerk (Initial 125-128)

**EXPENDITURE NON-CONSTRUCTION CONTRACT REVIEW FORM: CONTRACT AMENDMENT**

**City of Berkeley Contract Amendment Data Transmittal**  
 (To be completed by Project Manager)

Recology-Grover Environmental Products  
 Contractor # \_\_\_\_\_  
 235 North First Street  
 Address  
 Dixon, CA 95620  
 City/State/Zip

**Amended Contract Number:**  
 8389A

**Contract Amendment Authority**

- Resolution # 65,915-N.S. Original Resolution # 64,868-N.S.
- Ordinance # \_\_\_\_\_ (if appropriate)
- City Manager Authorization \_\_\_\_\_

**Description of Amendment/s**

- Change of Services/Scope: \_\_\_\_\_
- Change of Dollars: Original Amount: \$3,410,950 Amended Not to Exceed Amount: \$6,854,818

**Change of Contract Term**

Change as of This Amendment or Extension:  
 From: October 16, 2012 To: July 31, 2015

Change as of Prior Amendment (if any):  
 From: \_\_\_\_\_ To: \_\_\_\_\_

Original Term: From: August 1, 2010 To: July 31, 2013

**Evidence of Insurance for Contract Amendment**

Insurance	Waiver	Amount	Expiration Date	TICKLER DATE (City Clerk)
Professional Liability	<input type="checkbox"/>	\$ _____	_____	_____
General Liability	<input checked="" type="checkbox"/>	<u>\$1,500,000</u>	<u>10/01/2013</u>	_____
Automobile	<input type="checkbox"/>	<u>\$1,500,000</u>	<u>10/01/2013</u>	_____
Workers Comp.	<input type="checkbox"/>	<u>\$2,000,000</u>	<u>10/01/2013</u>	_____
Bond	<input type="checkbox"/>	\$ _____	_____	_____

**AMENDMENT TO CONTRACT**

THIS CONTRACT AMENDMENT is entered into October 16, 2012 between the CITY OF BERKELEY ("City"), a Charter City organized and existing under the laws of the State of California, and Recology Grover Environmental Products ("Contractor") a Corporation, doing business at 235 North First Street, Dixon, CA 95620

WHEREAS, City and Contractor previously entered into Contract Number 8389, dated, August 1, 2010 which Contract was authorized by the Berkeley City Council by Resolution No. 64,868-N.S. for an amount not to exceed \$3,410,950.

THEREFORE, City and Contractor mutually agree to amend said contract as follows:

1. Section 1a. is amended to read as follows:

**PAYMENT**

- a. For services referred to in Section 1, City will pay Contractor a total amount not to exceed \$6,854,818. City shall make payments to Contractor in accordance with provisions described in Exhibit B, which is attached to and made part of this Contract Amendment.

**TERM**

- b. This Contract shall begin on August 1, 2010 and end on July 31, 2015. The City Manager of the City may extend the term of this contract by giving written notice.

ORIGINAL COPY

CMS# XPOOX  
AUTH# 16.915

In all other respects, the original contract dated August 1, 2010 should remain in full force and effect.

IN WITNESS WHEREOF, City and Contractor have executed this Contract as of the date written on the first paragraph of this Contract.

CITY OF BERKELEY

By *Christine Dal*  
City Manager

THIS CONTRACT HAS BEEN  
APPROVED AS TO FORM BY  
THE CITY ATTORNEY FOR  
THE CITY OF BERKELEY  
5/09

Registered by:

*Ann Marie Hogan 4/12*  
City Auditor

Attest:

*J Rose Thomsen*  
Acty Deputy City Clerk

CONTRACTOR

Recology-Grover *MICHAEL J. SANGIACOMO*  
Name (Printed)

By *Michael J...*, CEO  
Signature and Title

**EXHIBIT A**  
**SCOPE OF SERVICES**

**1. Services to be Provided**

Contractor shall receive process and handle materials listed below, dispose of contaminants, and market end products to maximize the City's waste diversion.

**2. Materials**

"City of Berkeley source-separated organic materials" shall mean all of the following materials that are received at the City of Berkeley Transfer Station:

- Plant debris (leaves, grass, brush, prunings, weeds, and other yard waste)
- Unpainted and untreated wood, including pallets, wooden packing crates, and scrap lumber, with or without nails
- Unpainted sheet rock
- Food and food processing waste (includes pre- and post consumer food residuals of vegetative, mammalian and non-mammalian origin generated in the residential, institutional and commercial sectors)
- Food-soiled/wet/waxed cardboard
- Food-soiled, wet or otherwise non-recyclable mixed paper
- Paper gable-top cartons, such as are used for milk and juice
- Approved bioplastics including compostable bags

**3. Specifications**

The Contractor must accept individual pieces of City of Berkeley source-separated organic materials up to 10 inches in diameter and 10 feet in length. The Contractor's level of acceptable contamination must not be lower than 5% or higher than 10%. The Contractor shall accept up to 3500 tons per month of City of Berkeley source-separated organic materials. The contractor shall accept additional tons per month, upon mutual agreement of City and Contractor.

**4. City Commitment of Materials**

The City of Berkeley shall make available to the Contractor no less than 70% of all City of Berkeley source-separated organic materials received during any single month at the City of Berkeley Solid Waste Transfer Station, that meet the specifications set forth in paragraph 3 of this Exhibit.

5. **Weighing of Materials**

Contractor shall weigh all City of Berkeley source-separated organic materials to be delivered to and received by the Contractor's processing facility. Contractor shall provide to the City weight records for each load of City of Berkeley source-separated organic materials to be delivered to and received by the Contractor's processing facility.

6. **Hours of Operation**

Contractor's facility located at 3909 Gaffery Road, Vernalis, CA 95385 shall be available to receive materials from 5:00 a.m. to 4:00 p.m. Monday through Saturday, except for New Years' Day, Thanksgiving Day and Christmas Day. The majority of the shipments will be Monday through Friday.

7. **End Products**

A. End Uses

Unless otherwise requested in writing by the City of Berkeley, Contractor shall process at least 80% of the delivered City of Berkeley source-separated organic materials into soil amendments, such as compost and mulch. Soil amendments do not include alternative daily cover. The remainder may be processed into recycled products other than soil amendments. End products, other than residues, may not be used in or at a landfill for any purpose other than final vegetative cover of a capped portion of the landfill, without prior written consent from City.

B. End Product Standards

Contractor shall ensure that said end products meet federal and state minimum compost and horticulture industry standards. Contractor shall perform routine sampling procedures and laboratory analyses as required by State of California compost regulations and applicable permits, shall send the results to the City in a timely manner, and shall inform the City of whether the end products meet federal and state minimum standards based on the analyses performed. Contractor shall participate in the US. Composting Council Seal of Testing Assurance (STA) program, and provide proof of participation and a Compost Technical Data Sheet annually.

8. **Documentation**

A. Monthly Tonnage Summary Reports

Contractor shall provide City of Berkeley with monthly tonnage summary reports, in a form approved by the City of Berkeley. Each tonnage summary shall report the quantities, in tons, of the following:

- City of Berkeley source-separated organic materials received during the period covered
- Any other source-separated organic materials generated in Berkeley and delivered to Contractor's facility by private haulers
- Percent residue (by weight) and tons of City of Berkeley source-separated organic materials that require disposal
- Soil amendments produced (e.g. compost and mulch)



- Other end products produced
- Amount and type of finished product delivered to the City of Berkeley

Said tonnage summary reports shall be provided to the City of Berkeley along with the monthly invoice for services.

#### B. Accounting Methods

The City of Berkeley shall have the right of approval of Contractor's methods of accounting for tonnages of City of Berkeley source-separated organic materials received by Contractor. Said approval shall not be unreasonably withheld.

#### C. Processing Facility Compliance

The Contractor shall operate and maintain the processing facility used to process City of Berkeley source-separated organic materials into products in compliance with all applicable federal, state and local environmental laws and regulations, permits, and Occupational Safety and Health (OSHA) requirements. The Contractor shall obtain all permits; permit amendments and extensions necessary for continual functioning of the facility. The City retains the right to inspect all permits granted for the Contractor's facility.

#### D. Records Inspection

The City of Berkeley shall have the right to inspect all records needed to verify information provided by the Contractor. Failure to provide access to such records within 72 hours of written request from the City of Berkeley is cause for immediate termination of the agreement with the City.

### **9. Marketing of End Products**

Except for any end products to be provided by Contractor for use by the City of Berkeley, marketing and distribution of end products shall be the sole responsibility of Contractor.

### **10. Ownership of Carbon Offsets**

Should Contractor apply for carbon credits for material from the processing of the City of Berkeley organics, any monetary value or actual credits will be split between the City of Berkeley and the Contractor on a 50/50 basis, subject to negotiation.

### **11. Provision of End Products to City of Berkeley**

#### A. Amount of End Products to be Made Available to City

The amount of end products the Contractor is obliged to make available to the City of Berkeley without charge in any month shall not exceed five percent (5%), by weight, of the average monthly amount of City of Berkeley source-separated organic materials received by the Contractor's processing facility from the Berkeley Transfer Station.

B. Provision of End Products to City

Contractor shall deliver to the City of Berkeley end products at no cost to the City of Berkeley, upon written request. Said end products shall be comprised of compost or mulch, in proportions and amounts to be requested by the City of Berkeley. The City reserves the right to have the Contractor deliver said end products to locations within the City of Berkeley, provided that reasonable, safe access and egress to the site(s) are provided.

**EXHIBIT B**

**PAYMENT**

Invoices: Invoices must be fully itemized and provide sufficient information for approving payment and audit. Invoices must be accompanied by receipt for services in order for payment to be processed. Invoices shall reference contract number and project title and shall be mailed to:

City Of Berkeley  
Accounts Payable  
PO Box 700  
Berkeley, CA 94701

Total amount will not exceed \$6,854,818

The city will make payment to the vendor within thirty (30) days of receipt of a correct and complete invoice.

For all work as described in Exhibit A of the original contract and Exhibit B of the original contract, to remain the same.



# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

10/4/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

**IMPORTANT:** If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

<b>PRODUCER</b> Beecher Carlson Insurance Services 21700 Oxnard Street, Suite 1800 Woodland Hills, CA 91367  www.beecher-carlson.com	<b>CONTACT NAME:</b>	
	PHONE (A/C, No, Ext): 818-598-4200	FAX (A/C, No): 818-598-5800
<b>INSURED</b> Recology Golden Gate 900 Seventh Street San Francisco CA 94107	<b>E-MAIL ADDRESS:</b>	
	<b>INSURER(S) AFFORDING COVERAGE</b>	
	<b>INSURER A:</b> ACE American Insurance Company	<b>NAIC #</b> 22667
	<b>INSURER B:</b> Lexington Insurance Company	19437
	<b>INSURER C:</b> XL Specialty Insurance Company	37885
	<b>INSURER D:</b>	
<b>INSURER E:</b>		
<b>INSURER F:</b>		


**COVERAGES** **CERTIFICATE NUMBER: 14330352** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<b>GENERAL LIABILITY</b> <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR <input checked="" type="checkbox"/> SIR: \$500,000  GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC		XSL G25839717	10/1/2012	10/1/2013	EACH OCCURRENCE \$ 1,500,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 1,500,000 MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ 1,500,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000 \$ \$
A	<b>AUTOMOBILE LIABILITY</b> <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS <input checked="" type="checkbox"/> SIR: \$500,000 <input checked="" type="checkbox"/> Auto PD: Self Insured		XSA H08684650	10/1/2012	10/1/2013	COMBINED SINGLE LIMIT (Ea accident) \$ 1,500,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$ \$
B	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> DED <input type="checkbox"/> RETENTION \$		065463216	10/1/2012	10/1/2013	EACH OCCURRENCE \$ 5,000,000 AGGREGATE \$ 5,000,000 \$ \$ \$
C	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b> ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N <input type="checkbox"/> N/A	RWE5000345 (includes WA Stop Gap)  SIR: \$1,000,000	10/1/2012	10/1/2013	<input checked="" type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER E.L. EACH ACCIDENT \$ 2,000,000 E.L. DISEASE - EA EMPLOYEE \$ 2,000,000 E.L. DISEASE - POLICY LIMIT \$ 2,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Subject to the terms and conditions of the policies, insured is responsible for any damages arising from the negligence of the insured in the performance of services for the certificate holder.

<b>CERTIFICATE HOLDER</b>  Solid Waste Management Division Attn: Wayne N. Phillips 1201 Second Street Berkeley CA 94710	<b>CANCELLATION</b>  SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
	AUTHORIZED REPRESENTATIVE   (WDHLS) Pam Brooskin

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ACORD 25 (2010/05)

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RESOLUTION NO. 65,915-N.S.

CONTRACT NO. 8389 AMENDMENT: RECOLOGY GROVER ENVIRONMENTAL PRODUCTS FOR ORGANICS PROCESSING AND TRANSPORTATION

WHEREAS, on August 1, 2010 the City Manager entered into Contract No. 8389 with Recology Grover Environmental Products for organics processing and transportation. Their contract term runs through July 31, 2013; and

WHEREAS, the City needs reliable transportation and high quality processing for the organic material we divert from the landfill each year; and

WHEREAS, to exercise the City's option to extend the contract term to July 31, 2015 and increase the contract not-to-exceed (NTE) amount by an additional \$3,443,868; and

WHEREAS, this contract amendment has been entered in the City's contract management database and assigned CMS No. XPQQX; and

WHEREAS, funding for the contract amendment is available in the adopted FY 2013 budget in the Refuse Fund (820-5612-432-3038, 820-5613-432-3038, 820-5607-432-3038) and Measure D Grant Fund (645-5612-432-3038, 645-5613-432-3038) and will be recommended for appropriation in subsequent fiscal years.

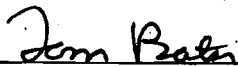
NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is hereby authorized to execute an amendment to Contract No. 8389 with Recology Grover Environmental Products, exercising the first 2-year option, extending the term to July 31, 2015 and increasing the contract by \$3,443,868 for an amended not-to-exceed total of \$6,854,818.

The foregoing Resolution was adopted by the Berkeley City Council on October 16, 2012 by the following vote:

Ayes: Anderson, Arreguin, Capitelli, Maio, Moore, Wengraf, Worthington, Wozniak and Bates.

Noes: None.

Absent: None.

  
\_\_\_\_\_  
Tom Bates, Mayor

Attest:

  
\_\_\_\_\_  
Mark Numainville, CMC, Acting City Clerk





**AGREEMENT FOR PLANT AND  
ORGANIC MATERIALS  
PROCESSING SERVICES**

*between*

**South Bayside Waste Management  
Authority**

**&**

**Recology Grover Environmental  
Products, Inc.**

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Exhibit B	Contractor Services
Exhibit C	Plant and Organic Materials Rates
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Exhibit F	U.S. Compost Council Seal of Testing Assurance, Landscape Architectural Specifications for Compost Use

## **EXHIBIT A**

### **DEFINITIONS**

**Actions** means all actions including claims, demands, causes of action, suits, mediation, arbitration, hearings, investigations, inquiries and proceedings, whether legal, judicial, quasi-judicial, governmental or administrative in nature and whether threatened, brought, instituted or settled.

**Affiliate** means all businesses (including corporations, limited and general partnerships, and sole proprietorships) which are directly or indirectly related to Contractor by virtue of direct or indirect Ownership interests or common management shall be deemed to be "**Affiliated with**" Contractor and included within the term "**Affiliates**" as used herein. An Affiliate shall include a business in which Contractor Owns a direct or indirect Ownership interest, a business which has a direct or indirect Ownership interest in Contractor and/or a business which is also Owned, controlled, or managed by any business or individual which has a direct or indirect Ownership interest in Contractor. For purposes of determining whether an indirect ownership interest exists, the constructive ownership provisions of Section 318(a) of the Internal Revenue code of 1986, as in effect on the date of this Agreement, shall apply; provided, however, that (i) "ten percent (10%)" shall be substituted for "fifty percent (50%)" in Section 318(a)(2)(C) and in Section 318(a)(3)(C) thereof; and (ii) Section 318(a)(5)(C) shall be disregarded. For purposes of determining ownership under this paragraph and constructive or indirect ownership under Section 318(a), ownership interest of less than ten percent (10%) shall be disregarded and percentage interests shall be determined on the basis of the percentage of voting interest or value which the ownership interest represents, whichever is greater.

**Agency/Agencies** means any one of the public entities which are signatories to the Joint Exercise of Powers Agreement of the South Bayside Waste Management Authority (SBWMA).

**Agreement** means this Agreement between the SBWMA and Contractor, including all exhibits, schedules and attachments (which are hereby incorporated in this Agreement by this reference), as this Agreement may be amended and supplemented.

**Applicable Law** means all law, statutes, rules, regulations, guidelines, Permits, actions, determinations, orders, approvals or requirements of the United States, State, regional or local government authorities, agencies, boards, commissions, courts or other bodies having applicable jurisdiction, that from time to time apply to or govern Services or the performance of the Parties' respective obligations under this Agreement.

**Assign** means:

- (i) selling, exchanging or otherwise transferring effective control of management of the Contractor (through sale, exchange or other transfer of outstanding stock or otherwise);
- (ii) issuing new stock or selling, exchanging or otherwise transferring 20% or more of the then outstanding common stock of the Contractor;
- (iii) any dissolution, reorganization, consolidation, merger, re-capitalization, stock issuance or re-issuance, voting trust, pooling agreement, escrow arrangement, liquidation or other transaction which results in a change of Ownership or control of Contractor;
- (iv) any assignment by operation of law, including insolvency or bankruptcy, making assignment for the benefit of creditors, writ of attachment of an execution, being levied against Contractor, appointment of a receiver taking possession of any of Contractor's tangible or intangible property;
- (v) any combination of the forgoing (whether or not in related or contemporaneous transactions) which has the effect of any that transfer or change of Ownership or control of Contractor.

**Calendar Year** means a successive period of 12 months commencing on January 1 and ending on December 31.

**Commencement Date** means the later date of execution by the SBWMA or Contractor on the execution page of this Agreement.

**Composting Facility** means the facility that will process, compost, and market the Plant and Organic Materials from SEC.

**Compost or Compost Products** means the resultant product of the Compost Process (composting, curing and screening process conducted by the Composting Facility). The compost shall be dark in texture, have an earthy aroma, be neutral pH, and have the chemical profile of sufficient quality to pass the U.S. Composting Council Seal of testing Assurance - Landscape Architectural Specification for Compost Use, Specification for Turf Establishment found in **Exhibit F**.

**Compost Process** means the compost process operated as described in the facility's Report of Compost Site Information that is submitted to the CIWMB. The process shall be managed to provide aeration, moisture and sufficient time and temperature so to produce Compost Product.

**Contamination or Contaminant** means any man-made non-organic fraction that is delivered to the compost facility with Organic Materials and must be removed to make the product acceptable to the market.

**Contractor** means Recology Grover Environmental Products, Inc., a corporation organized and operating under the laws of the State of California.

**Contractor Default** has the meaning provided in Article VII.

**Direct Cost** means Contractor's reasonable costs incurred for materials testing, sorting, or cleaning. Direct Cost of labor and equipment use does not include profit, overhead or administrative expense.

**Diversion (Divert)** means to divert from Disposal or use anywhere at or on a landfill through source reduction, reuse, recycling, composting.

**Food Scraps** means a subset of Organic Materials including: (i) all kitchen and table food waste, and all animal, vegetable, fruit, grain, dairy or fish waste that attends or results from the storage, preparation, cooking or handling of foodstuffs, with the exception of animal excrement, (ii) paper waste contaminated with putrescible material, and (iii) biodegradable plastic food service ware.

**Goods or Services** means all goods or services used in providing Services, including labor, leases, subleases, equipment, supplies and capital related to furnishing Services; insurance, bonds or other credit support if the insurer is an Affiliate or a captive of Contractor or any Affiliate; and legal, risk management, general and administrative services.

**Governmental Fees** are fees or taxes imposed upon Composting Facility by any governmental body or Regulatory Agency, other than those imposed upon the Composting Facility in connection with the repair, remediation, improvement, addition, or expansion of the Composting Facility.

**Holidays** are defined as New Year's Day, Labor Day, 4<sup>th</sup> of July, Thanksgiving Day, and Christmas Day.

**Hazardous Substance** means any of the following: (a) any substances defined, regulated or listed (directly or by reference) as "hazardous substances", "hazardous materials", "hazardous wastes", "toxic waste", "pollutant" or "toxic substances" or similarly identified as hazardous to human health or the environment, in or pursuant to (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 USC §9601 et seq. (CERCLA); (ii) the Hazardous Materials Transportation Act, 49 USC §1802, et seq.; (iii) the Resource Conservation and Recovery Act, 42 USC §6901 et seq.; (iv) the Clean Water Act, 33 USC §1251 et seq.; (v) California Health and Safety Code §§25115-25117, 25249.8, 25281, and 25316; (vi) the Clean Air Act, 42 USC §7901 et seq.; and (vii) California Water Code §13050; (b) any amendments, rules or regulations promulgated there under to such enumerated statutes or acts

currently existing or hereafter enacted; and (c) any other hazardous or toxic substance, material, chemical, waste or pollutant identified as hazardous or toxic or regulated under any other applicable federal, state or local environmental laws currently existing or hereinafter enacted, including, without limitation, friable asbestos, polychlorinated biphenyl's ("PCBs"), petroleum, natural gas and synthetic fuel products, and by-products.

**Household Hazardous Waste** means any Hazardous Substance generated incidental to owning or maintaining a place of residence, excluding any Hazardous Substance generated in the course of operation of a business concern at a residence, in accordance with Section 25218.1 of the California Health and Safety Code.

**Liabilities** means all liabilities, including:

- (i) Actions;
- (ii) Awards, judgments and damages, both: (a) actual damages, whether special and consequential, in contract or in tort, such as natural resource damages, damage for injury to or death of any Person; and damage to property; and (b) punitive damages;
- (iii) Contribution or indemnity claimed by Persons other than the Parties;
- (iv) Injuries, losses, debts, liens, liabilities,
- (v) Costs; such as response remediation and removal costs,
- (vi) Interest,
- (vii) Fines, charges, penalties, forfeitures and
- (viii) Expenses such as attorney's and expert witness fees, expenditures for investigation and remediation, and costs incurred in connection with defending against any of the foregoing or in enforcing Indemnities.

**Material Type** means segregated Plant Materials, segregated Wood Waste, segregated Food Scraps or Organic Materials (Commingled Plant Materials & Food Scraps).

**Maximum Vehicle Turnaround Time** means a monthly average of 30 minutes, measured from the time a vehicle enters either the Composting Facility property and until it exits the Composting Facility property, including but not limited to gross and net weights, tipping and transportation throughout the facility.

**Member (Member Agency)** means any one of the public entities of the Joint Exercise of Powers Agreement South Bayside Waste Management Authority.

**Rate** means the amount established under Article V, Contractor Compensation and Exhibit C, Plant and Organic Materials Rates, of this Agreement to be charged to the SBWMA by Contractor for Processing of Plant and Organic Materials.

**Monthly Report** is described in Article IV, Section 10 and Exhibit D, Monthly Reporting.

**Organic Materials** means those materials that will decompose and/or putrefy and includes Plant Materials, Food Scraps, and Wood Waste.

**Ownership** has the meaning provided under the constructive ownership provisions of Section 318(a) of the Internal Revenue Code of 1986 *except* that (1) 10 percent is substituted for 50 percent in Section 318(a)(2)(C) and in Section 318(a)(3)(C) thereof; (2) Section 318(a)(5)(C) is disregarded; (3) ownership interest of less than 10 percent is disregarded; and (4) percentage interests is determined on the basis of the percentage of voting interest or value which the ownership interest represents, whichever is greater.

**Party or Parties** refers to the SBWMA and Contractor, individually or together.

**Permits** means all federal, State, SBWMA, other local and any other governmental unit permits, orders, licenses, approvals, authorizations, consents and entitlements that are required under Applicable Law to be obtained or maintained by any Person with respect to Services, as renewed or amended from time to time.

**Person(s)** includes an individual, firm, association, organization, partnership, corporation, trust, joint venture, the United States, the State, local governments and municipalities and special purpose districts and other entities.

**Plant Materials** means a subset of Organic Materials consisting of grass cuttings, weeds, leaves, prunings, branches, dead plants, brush, tree trimmings, dead trees (not more than six (6) inches in diameter) and five (5) feet in length, and similar materials generated at Premises, separated from Solid Waste and other Organic Materials. Plant Materials does not include materials not normally produced from gardens or landscape areas, such as brick, rock, gravel, large quantities of dirt, concrete, sod, non-organic wastes, oil, and painted or treated wood products.

**Regulatory Agency** means any federal, State or local governmental agency, including California Department of Transportation, California Department of Motor Vehicles, EDD, U.S. Immigration and Naturalization Services, California Air Resources Board, regional water quality management districts, California Department of Toxic Substances, CIWMB, the Local Enforcement Agency, federal and State Environmental Protection Agencies and other federal or State health and safety department, applicable to Services.

**Records** means all ledgers, book of account, invoices, vouchers, canceled checks, logs, correspondence and other records or documents of Contractor evidencing or relating to Rates, tonnage of Plant and Organic Materials, satisfaction of Contractor's obligations under this Agreement and performance of the terms of this Agreement, damages payable under this Agreement and Contractor Defaults.

**Solid Waste** means and includes all putrescible and nonputrescible solid, semisolid, and liquid wastes, including garbage, trash, refuse, rubbish, ashes, industrial wastes, demolition and construction wastes, discarded home and industrial appliances, manure, vegetable or animal solid and semisolid wastes, and other discarded solid and semisolid wastes, as defined in California Public Resources Code §40191 as that section may be amended from time to time. For the purposes of this Agreement, "Solid Waste" does not include Hazardous Substances, low-level radioactive waste, medical waste, or Organic Materials.

**South Bayside Waste Management Authority (SBWMA)** means the joint powers authority created under Government Code Section 6500 et seq. by an agreement dated October 13, 1999 among the Town of Atherton, the cities of Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, the County of San Mateo and the West Bay Sanitary District.

**SEC** means the Shoreway Environmental Center (SEC) located at 225 Shoreway Road and 333 Shoreway Road and any other building and improvement located at these addresses in San Carlos, California (including the administration and vehicle repair and maintenance building) as its Facilities to be utilized under this Agreement.

**Subcontractor** means any Person to which Contractor subcontracts any portion of the Services, whether pursuant to formal, written agreement or otherwise.

**Term** is defined in Article III, Section 1.

**Ton (or Tonnage)** means a short ton of 2,000 standard pounds where each pound contains 16 ounces.

**Transfer (or Transferring or other variations thereof)** means transferring of Plant and Organic Materials at the SEC, if any, from residential collection vehicles, commercial collection vehicles and self-haulers into Transport vehicles.

**Transfer Company** means the Person that SBWMA directs pursuant to the Operating Agreement to Transport Plant and Organic Materials from the SEC to the Composting Facility.

**Transfer Vehicle** means a tractor and trailer designed to haul Plant and Organic Materials from SEC to the Composting Facility.

**Transport (or Transportation)** means the transportation of Plant and Organic Materials from SEC to the Composting Facility.

**Violation** means any notice, assessment or determination of non-compliance with Applicable law from any Regulatory Agency to Contractor, whether or not a fine or penalty is included, assess, levied or attached.

**Wood Waste** means a subset of Organic Materials consisting of pieces of unpainted and untreated dimensional lumber, and any other wood pieces or particles generated from the manufacturing or production of wood products, harvesting, processing or storage of raw wood materials, or construction and demolition activities.

**EXHIBIT B**  
**CONTRACTOR SERVICES**

**The Contractor will provide the following services to the SBWMA**

**a) Process the following types of Plant and Organic Materials**

- Segregated Plant Materials
- Segregated Wood Waste
- Segregated Food Scraps
- Organic Materials (commingled Plant Materials and Food Scraps)

**b) General Services**

1. Subject to Contractor's right to reject Contaminated loads, Contractor will receive Plant and Organic Materials delivered by the SBWMA's Transfer Company from the SEC or directly by collection truck by the SBWMA's contractor for collection services.
2. Accepted Plant and Organic Materials will be weighed in using certified scales located at the Composting Facility and tracked by Material Type accepted;
3. Plant and Organic Materials accepted by Contractor shall be diverted and Processed as provided in Article IV, Section 1 of this Agreement.
4. Contractor shall market finished Compost and other products manufactured from Plant and Organic Materials and shall be entitled to retain all proceeds thereof.

**c) Finished Compost to Member Agencies**

At SBWMA's request, Contractor will provide finished Compost free of charge to Member Agencies up to the amount set forth on Exhibit C, Table 1 under "Compost Give Back Program." If such allocation is not fully utilized in a given calendar year, the excess may not be carried over to a subsequent year. Contractor will be responsible for the costs of loading trucks, provided by the SEC, with finished compost product. Compost quality will meet the U.S. Compost Council Seal of Testing Assurance in **Exhibit F**.

**EXHIBIT C  
RATES**

**a) Rates**

Contractor will be compensated per ton for Plant and Organic Materials delivered to the Compost Facility based on the Material Type in **Table 1**.

**b) Annual Rate Adjustments**

The Rates outlined in **Table 1** are for the period January 1, 2011 through December 31, 2011. Such rates will be adjusted annually as shown below, effective January 1 of each year of the term, including extensions.

<b>Table 1 Processing Rates</b>			
<b>Material Type</b>	<b>\$/Ton Rates per Tonnage Bracket</b>		
<b><u>Contract Minimum Tonnage (annual)</u></b>		<b><u>60,001</u></b>	<b><u>80,001</u></b>
<b><u>Contract Maximum Tonnage (annual)</u></b>	<b><u>Up to 60,000</u></b>	<b><u>80,000</u></b>	<b><u>100,000</u></b>
Segregated Plant Materials (up to 100% of contract tonnage)	\$28/ton	\$27/ton	\$24.50/ton
Segregated Wood Waste, Brush, Logs and Branches (up to 100% of contract tonnage)	\$26/ton	\$21/ton	\$18/ton
Segregated Food Scraps (up to 25% of contract tonnage)	\$44/ton	\$44/ton	\$44/ton
Organics Materials (commingled Plant Materials and Food Scraps (up to 100% of contract tonnage)	\$32/ton	\$32/ton	\$32/ton
Compost Give Back Program (Number of one-cubic foot bags per year)	3,000	5,250	7,500
<b>Contamination Levels - Rate Adjustments</b>			
Contamination (by weight) under 2.5%	5%/ton	Decrease per ton to rates listed above (For segregated food scraps only)	
Contamination (by weight) from 2.5% to under 5%	<b>Base Rate</b> (above Rate per Tonnage Bracket based on this level of contamination)		
Contamination (by weight) from 5% to 10%	10%/ton	Increase per ton to rates listed above (Excluding segregated food scraps)	

Commencing January 1, 2012 and thereafter on each January 1, this Agreement is in effect, including any extension years, the rates stated above shall be increased by 90% of the change in the value of the All Urban Consumers Index (CPI-U), All Items, for the San Francisco-Oakland-San Jose, CA, Base Period 1982 – 1984 = 100, not seasonally adjusted, compiled and published by the U. S. Department of



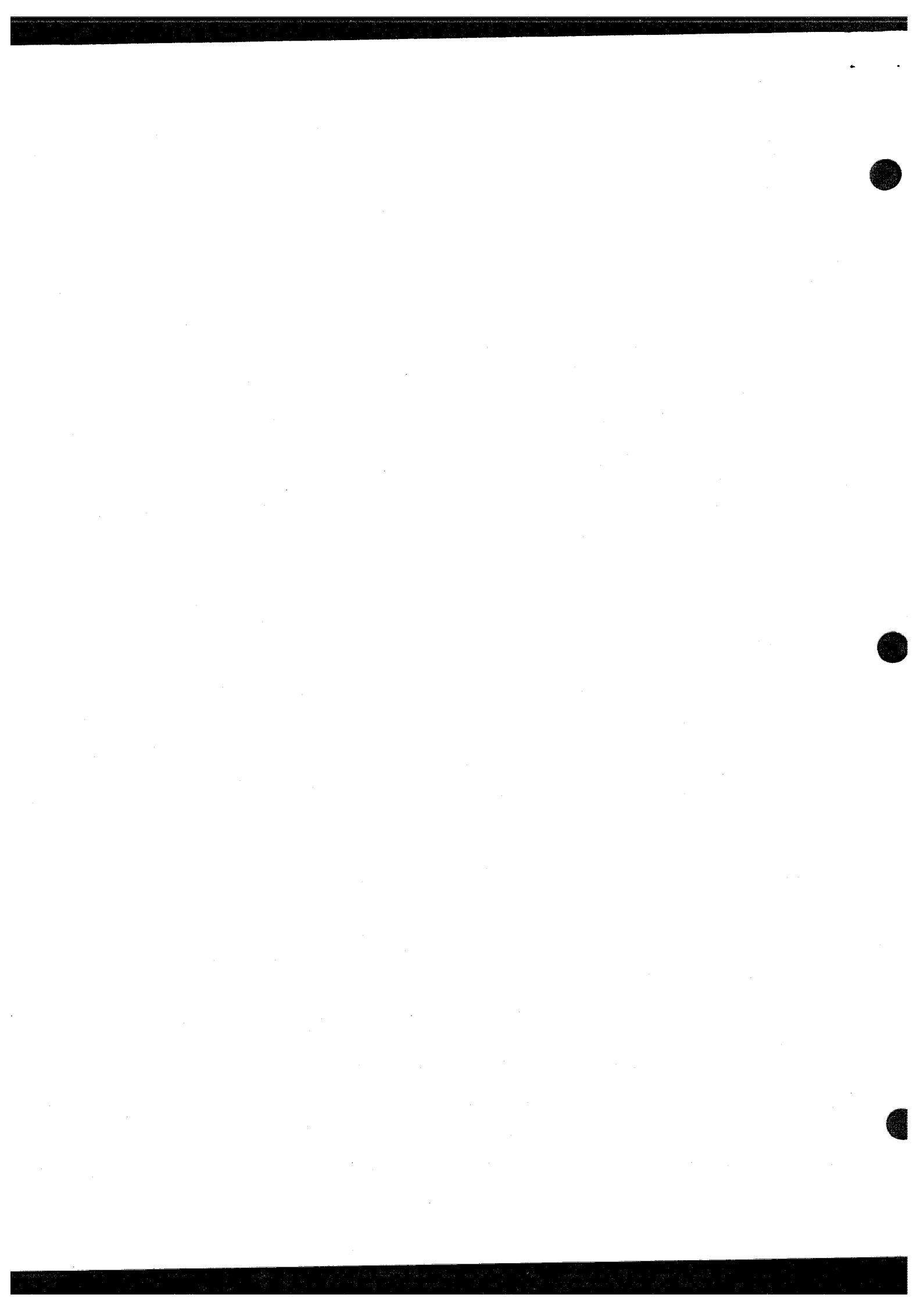
Labor, Bureau of Labor Statistics (or its successor) for the previous October and its value twelve months before.

**c) Contamination Level**

Contractor shall be entitled to reject any load with greater than 10% Contamination by weight or any load which appears to contain any quantity of Hazardous Substances. Any load containing in excess of 10% Contamination shall be classified as Solid Waste and loaded onto the Transfer Company's vehicles for backhaul to the SEC at no cost to Contractor.

**d) Negotiated Disposal for Excessive Contaminated Loads**

For loads that exceed the 15% Contamination threshold as described in **Exhibit E**, but which are salvageable by sorting Contamination out of the load, the SBWMA can choose to have the Contractor sort contamination from the load so that it falls below the 15% threshold. For loads that are sorted to remove excessive Contamination, the SBWMA will reimburse Contractor on a time and materials basis for the Direct Cost of handling of the excessive Contamination (e.g., sorting, transportation and disposal).



# Recology The Compost Store

2013

FOUR COURSE COMPOST AGED 1/4"		FOUR COURSE ® COMPOST		CLEAN CITY COMPOST	
Quantity	Food Scrap Compost	Quantity	Food Scrap Compost	Quantity	Yard Trimming Compost
1-25 Yrds.	\$25.00 Cubic Yard	1-25Yrds.	\$20.00 Cubic Yard	1-25 Yrds.	\$20.00 Cubic Yard
25 - 200 Yds.	\$19.00 Cubic Yard	25 - 200 Yds.	\$12.00 Cubic Yard	25 - 200 Yds.	\$12.00 Cubic Yard
201- 849 Yds.	\$14.00 Cubic Yard	201- 849 Yds.	\$10.00 Cubic Yard	201- 849 Yds.	\$10.00 Cubic Yard
850- 2,000 Yds.	\$12.00 Cubic Yard	850- 2,000 Yds.	\$9.00 Cubic Yard	850- 2000 Yds.	\$9.00 Cubic Yard
Over	Negotiable	Over	Negotiable	Over	Negotiable
<b>SUPER ORGANIC COMPOST</b>		<b>WONDER GROW COMPOST</b>		<b>JPO TOPSOIL</b>	
Quantity		Quantity	Yard Trimming Compost	Quantity	
1-25 Yrds.	\$35.00 Cubic Yard	1-25 Yrds.	\$20.00 Cubic Yard	1-25 Yrds.	\$35.00 Cubic Yard
25 - 200 Yds.	\$25.00 Cubic Yard	25 - 200 Yds.	\$12.00 Cubic Yard	25 - 200 Yds.	\$25.00 Cubic Yard
201- 849 Yds.	\$19.26 Cubic Yard	201- 849 Yds.	\$10.00 Cubic Yard	201- 849 Yds.	\$19.46 Cubic Yard
850- 2000 Yds.	\$17.26 Cubic Yard	850- 2,000 Yds.	\$9.00 Cubic Yard	850- 2,000 Yds.	\$17.46 Cubic Yard
Over	Negotiable	Over	Negotiable	Over	Negotiable
<b>JPO ULTRA POTTING MIX</b>					
Quantity					
1-25 Yrds.	\$35.00 Cubic Yard				
25 - 200 Yds.	\$25.00 Cubic Yard				
201- 849 Yds.	\$19.60 Cubic Yard				
850-2,000 Yds.	\$16.60 Cubic Yard				
Over	Negotiable				

**Product Location:**

**Feather River Organics**      Clean City Compost, Four Course Compost, Super Organics Compost 3/8"

**South Valley Organics**      Clean City Compost, Four Course Compost 3/8" and 1/4"

**Jepson Praire Organics**      All Above

**Recology Grover**      Wonder Grow 3/8 " 1/4"

[Home](#)[Compost Facilities](#)[Compost Products](#)[Compost Links](#)

## Recology Compost Products

**FOUR COURSE® COMPOST:** Food for your soil. This nutrient-rich compost is made from a unique feedstock that includes food scraps and yard trimmings. It encourages leafy growth and succulence, increases microbial activity, promotes strong root systems, and improves soil structure. This is a favorite of vineyard managers and organic farmers. The Organic Materials Review Institute (OMRI) has approved Four Course® Compost for use in organic production. It is screened to about 3/8 inch and available in bulk.

**CLEAN CITY COMPOST:** An environmentally friendly soil amendment made from yard trimmings. This compost is especially good for agricultural and landscape applications. Clean City Compost is screened to about 3/8 inch and available in bulk. Clean City Compost is OMRI listed and has participated in the U.S. Composting council's Seal of Testing Assurance (STA) program.

**SUPER ORGANIC COMPOST:** Consists of Clean City Compost, rice hulls, sawdust, iron sulfate, granulated poultry manure and gypsum. Super Organic Compost introduces organic matter to improve soil structure and to provide a balanced blend of macro and micronutrients. Super Organic Compost is ready to use as a soil conditioner, planting and potting mix in raised gardens and planting boxes. Nurseries rave about this special blend.

**JPO TOPSOIL:** This premium topsoil contains Four Course and Clean City composts, rice hulls, redwood sawdust, sandy loam, and gypsum. This mix is great for topsoil replacement, direct seedling, lawn care, soil repair, and raised garden beds.

**JPO ROCK PHOSPHATE COMPOST:** Rock phosphate is added to Four Course Compost to create an amendment that boosts phosphate-deficient soil, making the essential mineral more available to plant roots and increasing nitrogen retention in the compost. Adding phosphate also provides calcium, iron, and a broad spectrum of trace elements. This special blend is beneficial to farms and vineyards after harvest.

### Printable Material

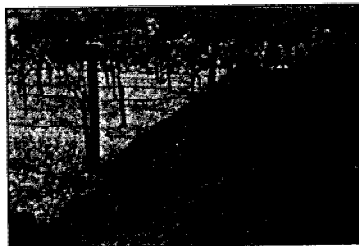
- [Credit Application](#)
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# That's WACC! beta

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Principles of Corporate ...  
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★★★★★

A great read, and a great Christmas gift!

Get Widget

Privacy

Enter the ticker symbol for any stock traded on the NYSE, AMEX, or NSDQ exchanges in the area below to calculate the firm's Weighted Average Cost of Capital (WACC).

Ticker Symbol:

## Here is the WACC and supporting information for *Waste Management, Inc. (WM)*.

You can change values in the "Your Input" sections of the tables below.

Element	From Financial Statements	Your Input
WACC:	6.46%	6.46%
Cost of Debt $r_D$ :	4.96%	4.96%
Corporate Tax Rate $T_C$ :	35.54%	35.54%
Total Debt $D$ :	9,836,000,000	9,836,000,000
Total Equity $E$ :	18,360,000,000	18,360,000,000
Total Firm Value $V$ :	28,196,000,000	28,196,000,000
Cost of Equity $r_E$ :	8.20%	8.20%

The Cost of Equity ( $r_E$ ) listed above is calculated using the Capital Asset Pricing Model (CAPM) based on the values below. You can also change the assumptions in the CAPM model. Recall that the CAPM model defines the rate of equity return as  $r_E = r_f + B(r_M - r_f)$ .

CAPM Component	Calculated Value:	Your Input
Beta:	0.65	0.65
Historical Market Return $r_M$ :	11.00%	11.00%
Risk Free rate $r_f$ :	3.00%	3.00%

## Below are key financial metrics, Balance Sheet and Income Statement data that were used to calculate WACC.

Key Statistics For:	Waste Management, Inc. (WM)
Market Cap (Intraday)5:	18.368
Beta:	0.65
Historical Market Returns $r_M$ :	11%
Risk Free Rate:	3%

Balance Sheet			
Period Ending	Dec 30, 2012	Dec 30, 2011	Dec 30, 2010
Short/Current Long Term Debt	743,000	631,000	233,000
Long Term Debt	9,173,000	9,125,000	8,674,000

Income Statement			
Period Ending	Dec 30, 2012	Dec 30, 2011	Dec 30, 2010
Interest Expense	488,000	481,000	473,000
Income Before Tax	1,303,000	1,520,000	1,631,000
Income Tax Expense	443,000	511,000	629,000

The Weighted Average Cost of Capital (WACC) is one of the most important measures in corporate finance. According to [Wikipedia](#)

“ The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets. ”

However, actually CALCULATING a firm's WACC requires that you know a firm's cost of debt ( $r_D$ ), corporate tax rate ( $T_C$ ), total Debt and Equity, as well as the firm's cost of equity ( $r_E$ ) - which in turn requires that you know a firm's Beta ( $B$ ) and the risk-free ( $r_f$ ) and market return ( $r_M$ ) rates. Whew!

# That's WACC! beta

The Web's Best WACC Calculator

I Recommend

HP 12C Platinum Financial Calculator  
Hewlett Packard  
\$68.00  
★★★★★

Principles of Corporate Finance  
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A great read, and a great Christmas gift!

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Enter the ticker symbol for any stock traded on the NYSE, AMEX, or NSDQ exchanges in the area below to calculate the firm's Weighted Average Cost of Capital (WACC).

Ticker Symbol:  Calculate WACC

## Here is the WACC and supporting information for Republic Services, Inc. (RSG).

You can change values in the "Your Input" sections of the tables below.

Element	From Financial Statements	Your Input
WACC:	6.18%	6.18%
Cost of Debt $r_D$ :	5.55%	5.55%
Corporate Tax Rate $T_c$ :	36.00%	36.00%
Total Debt $D$ :	6,996,150,000	6,996,150,000
Total Equity $E$ :	11,990,000,000	11,990,000,000
Total Firm Value $V$ :	18,986,150,000	18,986,150,000
Cost of Equity $r_E$ :	7.72%	7.72%

The Cost of Equity ( $r_E$ ) listed above is calculated using the Capital Asset Pricing Model (CAPM) based on the values below. You can also change the assumptions in the CAPM model. Recall that the CAPM model defines the rate of equity return as  $r_E = r_f + \beta(r_M - r_f)$ .

CAPM Component	Calculated Value:	Your Input
Beta:	0.59	0.59
Historical Market Return $r_M$ :	11.00%	11.00%
Risk Free rate $r_f$ :	3.00%	3.00%

## Below are key financial metrics, Balance Sheet and Income Statement data that were used to calculate WACC.

Key Statistics For:	Republic Services, Inc. (RSG)
Market Cap (Intraday) $M$ :	11,998
Beta:	0.59
Historical Market Returns $r_M$ :	11%
Risk Free Rate:	3%

Balance Sheet			
Period Ending	Dec 30, 2012	Dec 30, 2011	Dec 30, 2010
Short/Current Long Term Debt	19,400	34,800	878,500
Long Term Debt	7,051,100	6,887,000	5,865,100

Income Statement			
Period Ending	Dec 30, 2012	Dec 30, 2011	Dec 30, 2010
Interest Expense	388,500	440,200	507,400
Income Before Tax	823,900	906,300	877,000
Income Tax Expense	251,800	317,400	369,500

The Weighted Average Cost of Capital (WACC) is one of the most important measures in corporate finance. According to Wikipedia

“ The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets. ”

However, actually CALCULATING a firm's WACC requires that you know a firm's cost of debt ( $r_D$ ), corporate tax rate ( $T_c$ ), total Debt and Equity, as well as the firm's cost of equity ( $r_E$ ) - which in turn requires that you know a firm's Beta ( $\beta$ ) and the risk-free ( $r_f$ ) and market return ( $r_M$ ) rates. Whew!

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# That's WACC! beta

The Web's Best WACC Calculator

Enter the ticker symbol for any stock traded on the NYSE, AMEX, or NSDQ exchanges in the area below to calculate the firm's Weighted Average Cost of Capital (WACC).

Ticker Symbol:

## Here is the WACC and supporting information for Waste Connections Inc. (WCN).

You can change values in the "Your Input" sections of the tables below.

Element	From Financial Statements	Your Input
WACC:	4.36%	4.36%
Cost of Debt rd:	3.10%	3.10%
Corporate Tax Rate Tc:	39.51%	39.51%
Total Debt D:	1,708,796,000	1,708,796,000
Total Equity E:	4,440,000,000	4,440,000,000
Total Firm Value V:	6,148,796,000	6,148,796,000
Cost of Equity re:	5.32%	5.32%

The Cost of Equity (re) listed above is calculated using the Capital Asset Pricing Model (CAPM) based on the values below. You can also change the assumptions in the CAPM model. Recall that the CAPM model defines the rate of equity return as  $re = rf + B(rm - rf)$ .

CAPM Component	Calculated Value:	Your Input
Beta:	0.29	0.29
Historical Market Return rm:	11.00%	11.00%
Risk Free rate rf:	3.00%	3.00%

## Below are key financial metrics, Balance Sheet and Income Statement data that were used to calculate WACC.

Key Statistics For:	Waste Connections Inc. (WCN)
Market Cap (intraday):	4.44B
Beta:	0.29
Historical Market Returns rm	11%
Risk Free Rate	3%

Balance Sheet			
Period Ending	Dec 30, 2012	Dec 30, 2011	Dec 30, 2010
Short/Current Long Term Debt	33,968	5,899	2,657
Long Term Debt	2,204,967	1,172,758	909,978

Income Statement			
Period Ending	Dec 30, 2012	Dec 30, 2011	Dec 30, 2010
Interest Expense	53,037	44,520	40,134
Income Before Tax	265,103	273,129	225,476
Income Tax Expense	105,443	106,958	89,334

The Weighted Average Cost of Capital (WACC) is one of the most important measures in corporate finance. According to Wikipedia

“ The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets. ”

However, actually CALCULATING a firm's WACC requires that you know a firm's cost of debt (rd), corporate tax rate (Tc), total Debt and Equity, as well as the firm's cost of equity (re) - which in turn requires that you know a firm's Beta (B) and the risk-free (rf) and market return (rm) rates. Whew!

I Recommend

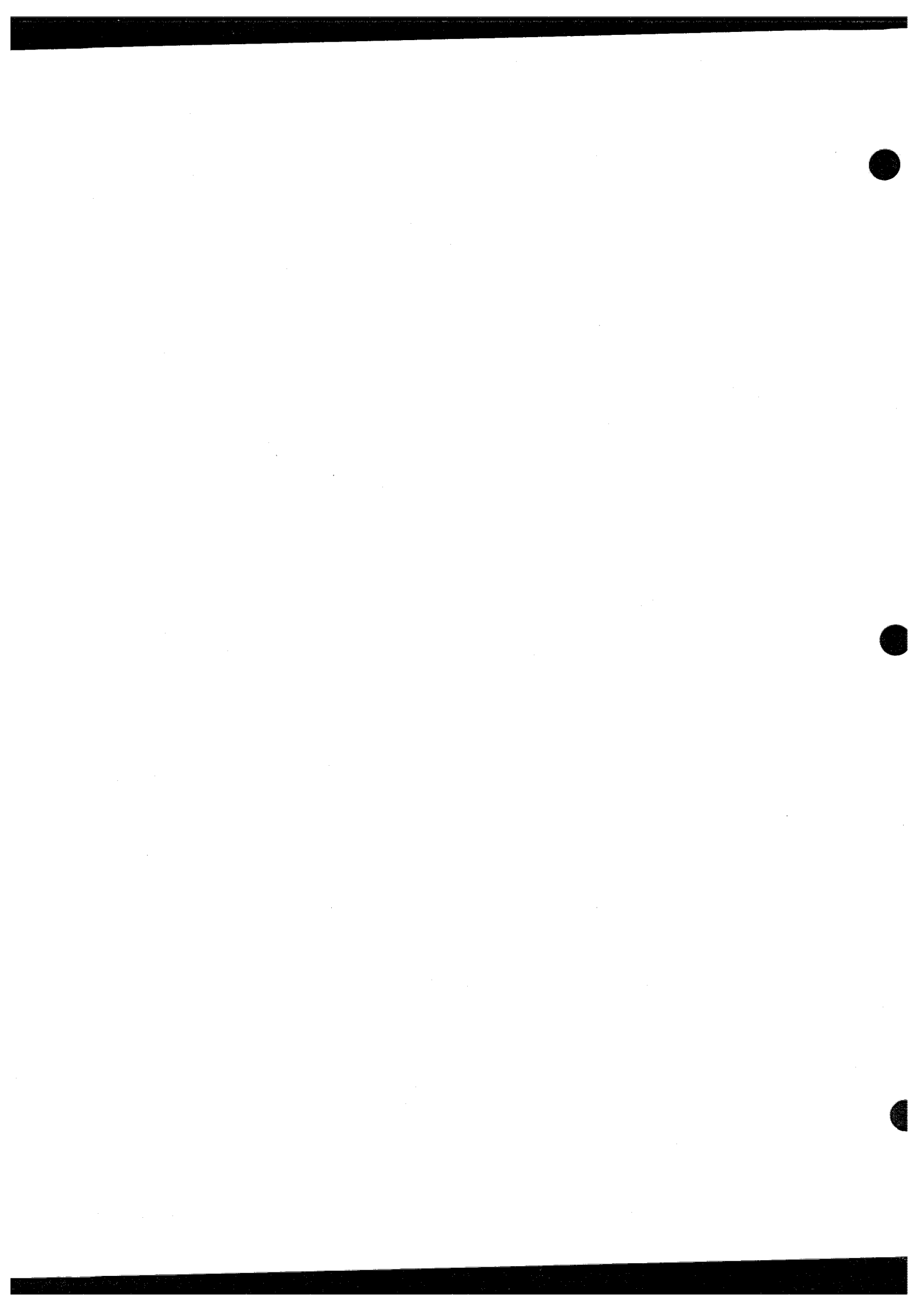
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A great read, and a great Christmas  
gift!





“Monetizing the Trash”  
\$3 per mattress

To: Budget Committee

From: Bayview Residents

Date: April 24, 2013

Submitted by: Robert Davis 1-415-831-2830 cell



"Monetizing the trash." The City will pay you \$3 for any mattress you take to the dump. You must come to the dump in a vehicle that is registered in SF and you must show your driver's license with an SF address. No commercial vehicles.

Yes repeats. Yes, there will be some abuse of this program but it would still be cheaper than sending DPW out to clean up illegal mattress dumping. People will be driving around looking for mattresses to take to the dump, just like they pick up pallets, bottles, and cans. A few jobs will be created. There will be some accounting, some recycling, some transportation, and some other work involved.

How to pay for this idea? Add a \$3 fee (fees are not taxes and do not require a vote by the public) for every mattress sold in SF. The public already pays a "recycle fee" when they buy car tires or a computer. In fact, this fee is more transparent since it can be tied directly to the City Dump.

Actually, after some time has passed and there is enough interest, you could enlarge the program to include large pieces of furniture or spas or some of the other large things that people dump illegally. There are tons of folks who drive around looking for pallets, cans, etc. We could harness their energy (for free) and help eliminate illegal dumping.

A recent California study by the "Illegal Dumping Technical Advisory Committee" reported in their "Informal Illegal Dumping Mattress Survey" result dated May 23, 2012, that the City of Oakland spent \$220,142 annually to respond to 2,840 complaints on illegally dumped mattresses. This works out to about 8 calls per day and about \$77.50 per mattress, on average.

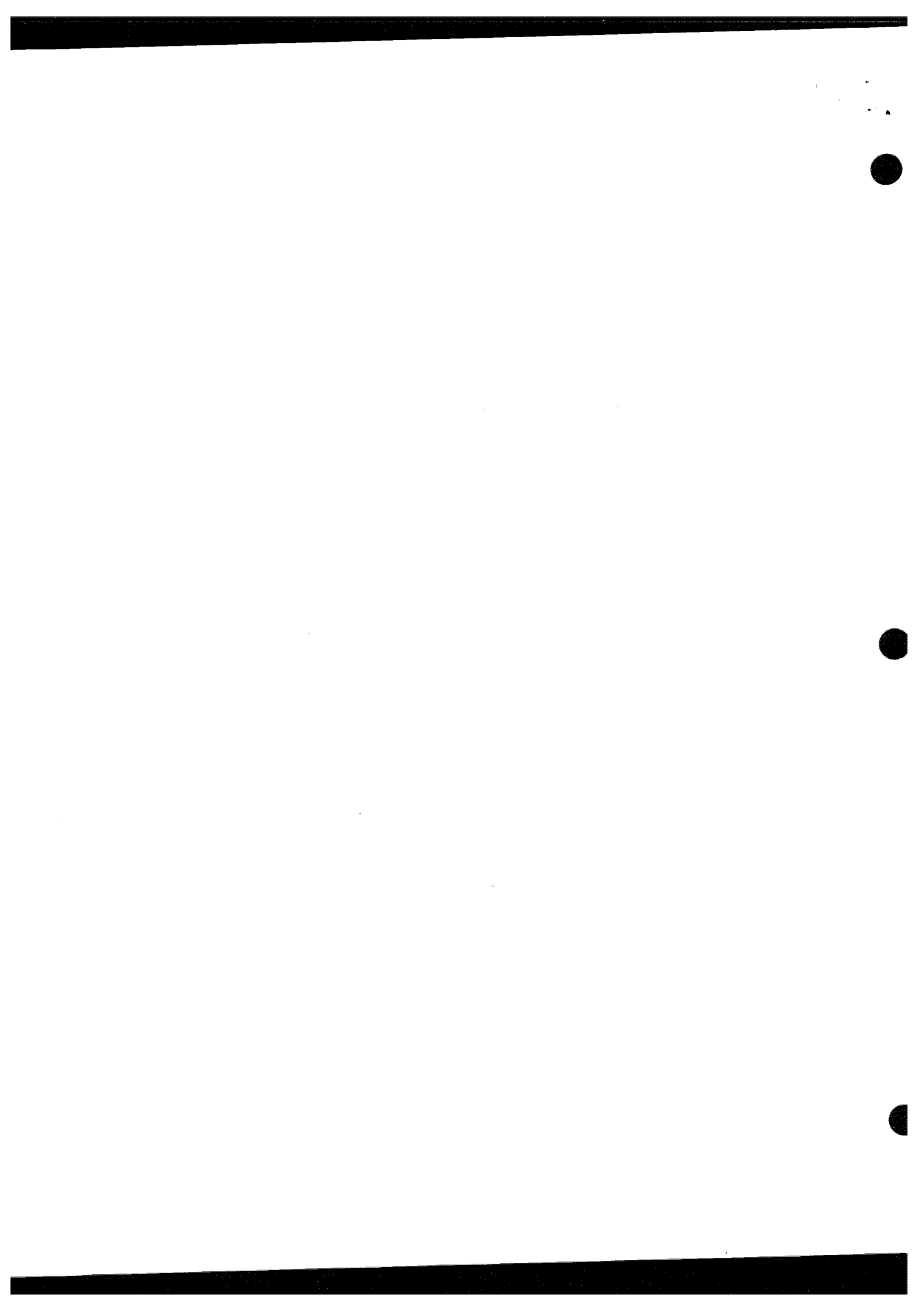
The Oakland link is

<http://www.mattressrecycling.us/household.htm>

**DR3 Mattress Recycling Facility, San Leandro, CA. (510) 351-0520.**

Some other links are found at++++++:

<http://tlc.howstuffworks.com/home/recycle-mattress.htm>





ratepayer advocate

Representing the public interest

**San Francisco Ratepayer Advocate**

CHOFER & HFC CONSULTANTS

201 North Civic Drive, Suite 230  
Walnut Creek, California 94596

Phone: (415) 554-6921

Email: [ratepayeradvocatesf@hfh-consultants.com](mailto:ratepayeradvocatesf@hfh-consultants.com)

Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

April 24, 2013

Mr. Mohammed Nuru  
Director  
Department of Public Works  
City and County of San Francisco

**Subject: Public Comment Received by the Rate Payer Advocate**

During this rate application process, and through April 23<sup>rd</sup>, the Rate Payer Advocate (RPA) has received, and responded as appropriate to the following.

1. Website – The website has received 861 views. The highest one-day total is 111 views on April 18<sup>th</sup>. See attached summary.
2. Phone Calls – We have received 14 calls from 9 individuals and have responded as requested. See attached phone log.
3. Emails- We have received, and responded to 14 emails or other comments from 13 individuals. See attached emails and responses.



1. RPA Website - Summary of Views

April 23, 2013, 7:57 pm

[s.Return to Stats](#)

Months and Years

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2013		49	366	426									861

Average per Day	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Overall
2013		5	12	19									14

Recent Weeks

	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Total	Average	Change
Mar 18		Mar 19	Mar 20	Mar 21	Mar 22	Mar 23	Mar 24			
37	40	62	42	14	6	0	201	29		
Mar 25		Mar 26	Mar 27	Mar 28	Mar 29	Mar 30	Mar 31			
12	19	10	3	9	0	1	54	8	-73.13%	
Apr 1		Apr 2	Apr 3	Apr 4	Apr 5	Apr 6	Apr 7			
6	11	0	7	4	1	1	30	4	-44.44%	
Apr 8		Apr 9	Apr 10	Apr 11	Apr 12	Apr 13	Apr 14			
26	36	30	29	15	6	0	142	20	+373.33%	
Apr 15		Apr 16	Apr 17	Apr 18	Apr 19	Apr 20	Apr 21			
10	19	40	11	31	26	7	244	35	+71.83%	
Apr 22		Apr 23								
4	6							4		-96.52%

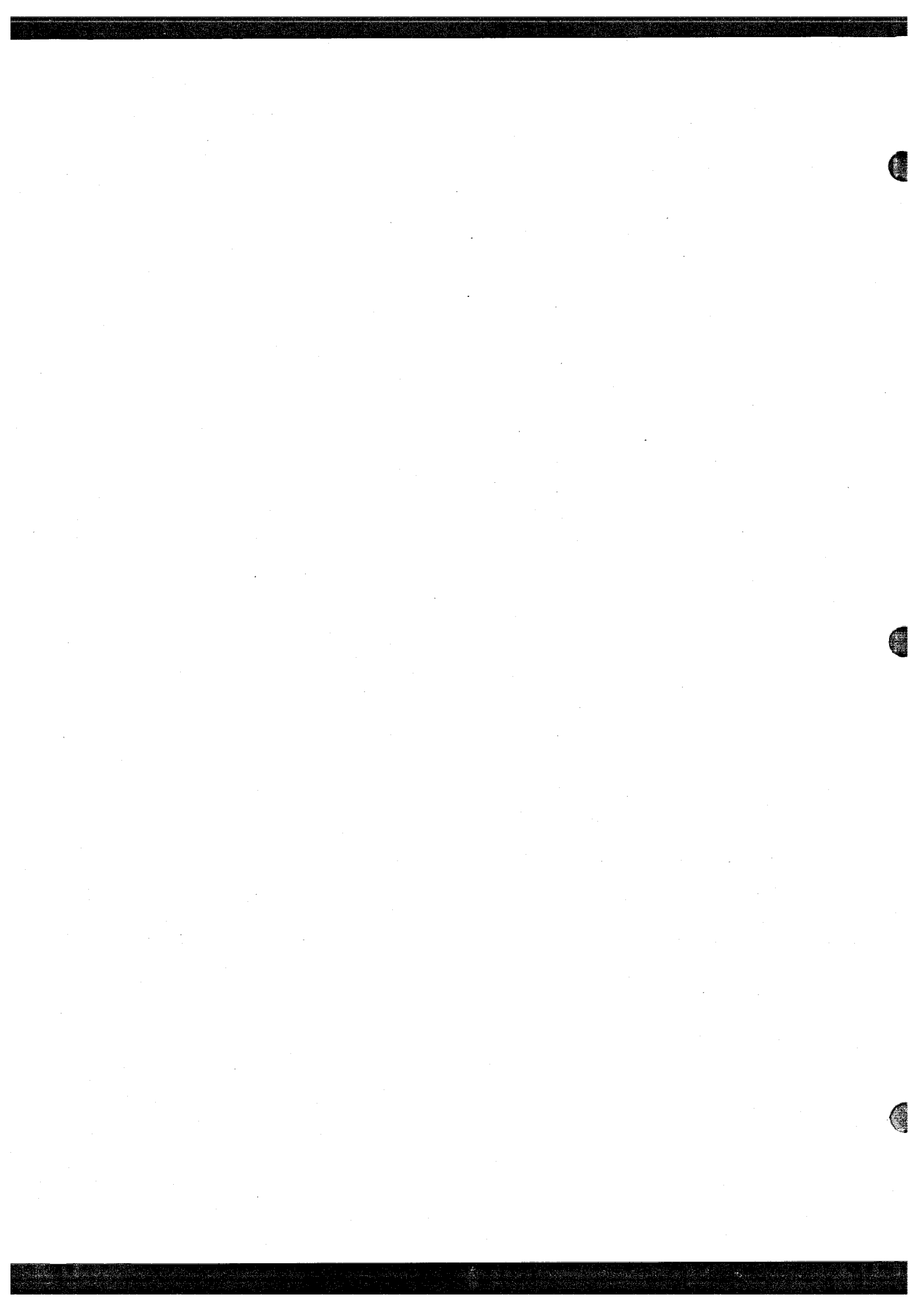




2. RPA Phone Log

RPA Phone Number: 415-554-6921

Date	Name	Message Summary	Response Required	Response Status
5-Jan	Kathleen	Catton Peter Deibler spoke with Kathleen Catton, Finance Director, Presidio Trust. She was interested in discussing the application and its effect on residential and commercial accounts since they have a mix of the two. Call occurred prior to initiation of RPA phone line.	n/a	Complete. RPA left voicemail messages on 1-25-13 and 2-14-13
19-Jan	David	Piipel Testing out the voice mail. Number currently on the message for Recology is incorrect. 1st workshop was relatively good, but would like to get together and talk soon.	Return Call	Complete
22-Jan	Ann	Carey Testing out the voicemail, please call back to confirm receipt.	Return Call	Complete
15-Feb	David	Piipel He's been sick for the past month and hasn't had a chance to call you back. He hopes to catch up soon. You're on his list of people to contact as soon as he's feeling better.	None	Complete
12-Mar	Hang-up		None	Complete
14-Mar	AI		Return Call	Complete - left voice message 3/15/13
14-Mar	Unintelligible		None - No name or contact information provided	
15-Mar	None	(Recology) can't increase the price.... (Unintelligible - very difficult to hear message)	None	Complete
18-Mar	Hang-up		None	Complete
19-Mar	AI		Return Call	Complete - phone discussion 3/21/13
20-Mar	None	Recology is the only game in town- they have a monopoly, and they are already charging too much. The floodgates are opening, water rates, PG&E rates, now garbage rates. San Francisco is getting too expensive to live in. Somebody's got to stop it. Opposes the rate increase.		
21-Mar	None			
22-Mar	None			
25-Mar	David	Piipel Contacting Douglas Legg about meeting with him to talk about a few things. When he hears back from him regarding times to talk he will let Peter know. That might not be until over the weekend or next week. Thinks everyone did the best they could yesterday (at the 2nd workshop), and will do more in the future.	n/a	Complete
8-Apr	None		Return Call	Complete - left voice message 4/9/13
9-Apr	David	Piipel It seems to me that if you are going to start charging for the compost and recycling containers, that will encourage people will start putting everything in the garbage container. You are also going to have, which has happened to us, people walking down the street, and they just dump their stuff in our container. I don't know - I got a larger container for a tenant who had a lot of junk to get rid of, but it has our address on it, simply because she was the one who called.	Return Call	Complete
11-Apr	David	Piipel Message for Peter regarding issues for coverage at the 1st hearing.	Return Call	Complete
12-Apr	Hang-up		Return Call	Complete
			None	Complete
			None	Complete - Peter called, and talked with that afternoon at the hearing
15-Apr	Bob	Kehoe Curious to know whether there is going to be a continuation of the hearings today, Monday (April 15, 1pm, room 416 - Supervisors Chambers). Just want to be sure that that is still going to be on the schedule. And I do have a few questions related to the proposed increase, and the way things are currently being conducted as well. If someone could give me a call back I would appreciate it.	Return Call	Complete - phone discussion 4/19/13
19-Apr	Tom	Schmidt I own a building in SF, a nine-unit. I am interested in knowing how to interpret the information we got in the mail regarding new ways to charge fees. I would like someone to call me back. And to please call my cell phone. Call notes: Mr. Schmidt is frustrated by the complexity of the rate calculations and feels as though communications sent by Recology are unclear and potentially misleading.	Return Call	Complete - phone discussion 4/19/14
19-Apr	Martin	Moran Received an email from Legislative Aide to Supervisor Yee asking to follow-up with this individual. He was interested in the process and the rate payer advocate's role.	Return Call	Complete - phone discussion 4/19/14



**From:** Lauren Barbieri  
**To:** [REDACTED]  
**Bcc:** Kim Erwin; Peter Deibler  
**Subject:** RE: Recology rate changes  
**Date:** Tuesday, February 19, 2013 10:30:00 AM

---

Tom-

Thank you so much for your email. You bring up a great point. The seasonality of needing that capacity for organic waste is likely something that will be felt by other ratepayers as well. We will represent your thoughts in the workshop and at the hearings.

Again, thanks for your input. To stay tuned-in on meeting schedules and other information concerning your solid waste rates please visit [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org).

**San Francisco Ratepayer Advocate**

Representing the Public Interest  
C/O HF&H Consultants  
201 North Civic Drive, Suite 230  
Walnut Creek, California 94596

Phone: (415) 554-6921

Email: [ratepayeradvocatesf@hfh-consultants.com](mailto:ratepayeradvocatesf@hfh-consultants.com)

Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

Please consider the environment before printing this email

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**From:** Tom Walker [REDACTED]  
**Sent:** Friday, February 15, 2013 12:29:59 PM  
**To:** RatePayerAdvocateSF  
**Subject:** Recology rate changes  
**Auto forwarded by a Rule**

I understand that Recology wishes to start charging for recycle and compost bins.

I have two large compost bins which are sometimes full, when I am clearing and trimming garden plantings, but are otherwise nearly empty.

Any rate structure which penalizes me for having these large bins would be unfair. Any charge for recycle or compost bins should be a flat charge, regardless of volume.

Tom Walker



**From:** Lauren Barbieri  
**To:** [REDACTED]  
**Bcc:** Peter Deibler; Kim Erwin  
**Subject:** RE: rate increase  
**Date:** Thursday, February 28, 2013 11:51:00 AM

---

Dear Mr. Chan,

Thank you for contacting us regarding Recology's refuse rate application. We will ensure your views and comments are expressed during the application review process.

You in effect asked, "As someone that produces only small amounts of garbage, why should I have to pay more?" Most of the cost of picking up refuse comes from sending the truck down the street, rather than the amount of material picked up from each customer. Residents that generate smaller amounts of refuse can benefit from using the 20 gallon black bin. Recology proposes to make the 20 gallon container cheaper compared to the 32 gallon bin.

We understand that the City is looking at other options that, longer term, might allow for customers to be billed only when they put out a bin for collection. Collecting the blue and black bins only when they are full could lower Recology's costs and help reduce, or minimize increases in customer rates. Since the green bin contains food scraps, residents may wish to continue to put it out on a weekly basis, full or not.

In terms of the amount of the proposed increase, the Rate Payer Advocate will be working to help ensure that Recology and City staff justify the amount of any final approved increase in order to ensure it is "just and reasonable".

Please visit the website over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information. Don't hesitate to contact us via this email address or by leaving a voicemail at (415) 554-6921.

Regards,  
SF Ratepayer Advocate

**San Francisco Ratepayer Advocate**

Representing the Public Interest  
C/O HF&H Consultants  
201 North Civic Drive, Suite 230  
Walnut Creek, California 94596

Phone: (415) 554-6921  
Email: [ratepayeradvocatesf@hfh-consultants.com](mailto:ratepayeradvocatesf@hfh-consultants.com)  
Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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-----  
**From:** don chan [REDACTED]  
**Sent:** Wednesday, February 27, 2013 3:58:54 PM  
**To:** RatePayerAdvocateSF  
**Subject:** rate increase  
**Auto forwarded by a Rule**

I am totally against the proposed outrageous charge for garbage collection, I already dont generate enough to justify weekly pick ups NOW at the already high price they charge, now they want even more for the little garbage i have!!??? why cant they have a sliding rate that reflects the amount of stuff they have to pick up from your place? those who create more trash should pay more.. those who dont shouldnt be punished by this damn "tax"..

**From:** [Kim Erwin](#)  
**To:** [Lauren Barbieri](#)  
**Subject:** FW: I Oppose the Recology Rate Increases  
**Date:** Thursday, March 21, 2013 11:39:06 AM

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-----  
**From:** Kim Erwin  
**Sent:** Thursday, March 21, 2013 11:39:00 AM  
**To:** RatePayerAdvocateSF  
**Cc:** Peter Deibler  
**Subject:** FW: I Oppose the Recology Rate Increases  
**Auto forwarded by a Rule**

**Kimberly Erwin**  
HF&H Consultants, LLC – Managing Tomorrow’s Resources Today  
Phone: (925) 977-6960  
Fax: (925) 977-6955  
Email: [kerwin@hfh-consultants.com](mailto:kerwin@hfh-consultants.com)

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**From:** Galen Workman [REDACTED] **On Behalf Of** Galen Workman  
**Sent:** Thursday, March 21, 2013 11:23 AM  
**To:** Kim Erwin  
**Subject:** RE: I Oppose the Recology Rate Increases

Thanks for the careful response.

**Galen Workman**

Website: [REDACTED]  
Blog: [REDACTED]  
Photos: [REDACTED]

---

**From:** Kim Erwin [<mailto:kerwin@hfh-consultants.com>]  
**Sent:** Thursday, March 21, 2013 9:13 AM  
**To:** Galen Workman  
**Cc:** [Scott.Wiener@sfgov.org](mailto:Scott.Wiener@sfgov.org)  
**Subject:** RE: I Oppose the Recology Rate Increases

Dear Mr. Workman,

Thank you for contacting us regarding Recology’s refuse rate application. We will ensure each of your comments are expressed during the application review process, including at today’s public workshop at City Hall from 4-7 PM.

In terms of the amount of the proposed increase, yes it is quite significant. While it is City staffs' role to review and evaluate the application, the Rate Payer Advocate will be working to help ensure that Recology and City staff justify the amount of any final approved increase in order to ensure it is "just and reasonable". Any approved rates need to be based both on reasonable costs and reasonable projected revenues.

We appreciate your opinion regarding charging for the green and blue bins. We were careful to state on the website that we are supportive of the concept. It is one that all cities with successful efforts towards Zero Waste are, or will be considering. Beginning at today's workshop we will be requesting that Recology provide clear, graphic materials on its website that "make the case" for why this change makes sense.

It is certainly true that recycled products do produce income, and those revenues help offset the cost of processing. How much so is a question we will be pursuing during the process. However, when collection is also considered, "blue bin service" in total – collection, processing, and the sale of materials - carries a net cost.

As you noted, one option would be to steeply increase the black bin rate. That can be done up to a point, but as there is less and less black bin material to collect, at some point costs will have to be covered – in some form - through the blue bin and the green bin, and through fixed per-unit charges such as Recology proposes.

We agree about the need to scrutinize Recology's assumptions in general, and about worker benefit assumptions in particular. It is interesting that Recology reduced its requested percentage increase for many of these costs between the draft and the final application. We have, and will continue during the process to request the City review and determine the validity of, and document Recology's assumptions as part of the formal record for review of the application.

The proposed rate of return is an operating ratio of 91%, roughly equivalent to a profit of 9 to 10%.

Thanks again for your email. Please visit the website over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information. We will be posting comments/questions on the final application, uploading a summary of today's workshop, etc. Don't hesitate to contact us via this email address or by leaving a voicemail at (415) 554-6921.

Regards,

**San Francisco Ratepayer Advocate**

Representing the Public Interest

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Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)



**From:** Galen Workman [REDACTED] **On Behalf Of** Galen Workman  
**Sent:** Tuesday, March 19, 2013 4:52 PM  
**To:** RatePayerAdvocateSF  
**Cc:** [Scott.Wiener@sfgov.org](mailto:Scott.Wiener@sfgov.org)  
**Subject:** I Oppose the Recology Rate Increases

I oppose Recology's rate increase proposal.

I believe it is so high that it should not be taken seriously. The 23.5% average increase is absurd, even as an opening negotiation position. If I were running this process I would throw out the request as being unworthy of serious consideration. Let them come back with a realistic, cost-driven proposal.

Unfortunately, it looks like we are already into the review process. So, here are my thoughts as a long-time resident and owner of a single-family house.

- You are wrong that the city is the victim of its own success in recycling and therefore the trash haulers should be able to charge for the blue and green bins. You state this concession on your website, and that is a terrible bargaining position for the City. The charge for green and blue bins simply does not follow from the success of the recycling program.

The success of the recycling program could result in more income from recycled products... why hasn't it? Or, the success could require that the cost of the black bins to go up steeply. There is nothing inevitable in imposing fees on blue and green bins. Your instant agreement with the proposed fee shows bad logic and apparent bias.

- The assumptions given by Recology are suspect.  
<http://sfdpw.org/modules/showdocument.aspx?documentid=2913> For example Recology is asking for COLA increases based on possible increases in health care costs due to Obamacare.

What? There are no rate increases yet. Recology should be negotiating with their insurance companies to make sure that there are no outlandish rate increases. They should not simply turn to the city and ask residents to pay.

- I trust that someone familiar with the City's contract is going over the other numbers. I don't want to make looking at the Recology spreadsheets a career. However, I didn't see a rate of return/profit jump out at me, nor did I see a chart of management salaries or distributions to owners. Those should be looked at.

Overall, Recology is trying for the best of all worlds. It wants to make money as a private company while at the same time taking a "we're helpless" attitude toward costs. If this is the best they can do, then the trash contracts really need to go out to bid. I voted NO on going out to bid last fall, but

if this increase goes through, I'll help circulate the next petition!

**Galen Workman**

[REDACTED]  
[REDACTED]  
[REDACTED]

**From:** Lauren Barblerl  
**To:** [REDACTED]  
**Bcc:** Kim Erwin; Peter Deibler  
**Subject:** RE: Complaint about rate Increases  
**Date:** Monday, March 25, 2013 5:36:00 PM

---

Doug,

Thank you for contacting us regarding Recology's refuse rate application. We will ensure each of your comments are reflected during the application review process, including at the first public hearing on April 12.

In terms of the amount of the proposed increase, yes it is quite significant. While it is City staffs' role to review and evaluate the application, the Rate Payer Advocate will be working to help ensure that Recology and City staff justify the amount of any final approved increase in order to ensure it is "just and reasonable". Any approved rates need to be based both on reasonable costs and reasonable projected revenues.

The issues of rising waste collection costs and restructuring rates are things that all cities with successful efforts towards Zero Waste are, or will be facing. Through this process we will be requesting that Recology provide clear, graphic materials on its website that "make the case" for why these changes makes sense.

Thanks again for your email. You can stay involved by following the process over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org), and/or attending the public hearings listed on the site. We will be posting comments/questions on the final application, uploading a summary of the workshops, etc. Don't hesitate to contact us via this email address or by leaving a voicemail at (415)554-6921.

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**From:** Doug Freedman [REDACTED]  
**Sent:** Saturday, March 23, 2013 4:55:01 PM  
**To:** RatePayerAdvocateSF  
**Subject:** Complaint about rate increases  
**Auto forwarded by a Rule**

I cannot understand how are garbage collection rates could be justified to increase 23 percent if at all. it is very clear by all economic indicators that inflation remains incredibly low. I find our garbage collection rates to be extremely high already. I am the president of a 4 unit homeowner association that handles garbage collection fees and our rates have gone up enough. I have noticed many of my neighbors no longer take advantage of pick up service from the garage area but in factor now putting their cans on the curb this is the result of unbelievably high fees for manual labor. our city is being greatly damaged in terms of the beauty available to all of us as a result of unbelievably high garbage collection fees. are trash collection cost have nearly doubled since 2008 there is no way I can understand how this rate increase is justifiable. Please let me know if I can be of any assistance in fighting the requested rate increase from Recology

Regards,  
Doug

  
Please excuse typo's, they are the result of autocorrect or my poor schooling

**From:** Lauren Barbieri  
**To:** [REDACTED]  
**Bcc:** [Kim Erwin](#); [Peter Deibler](#)  
**Subject:** RE: basic governance?  
**Date:** Monday, April 08, 2013 3:01:00 PM

---

Dear Mark,

Thank you for contacting us regarding Recology's refuse rate application. We will ensure your views and comments are expressed during the application review process.

You bring up very interesting points. The City of San Francisco is somewhat unique with respect to its solid waste collection arrangements. In 1932 a voter initiative modified the City's charter to provide the company that is now called Recology the exclusive right to collect waste materials. There was a challenge to the initiative on the June 2012 ballot, however, it failed.

In terms of the amount of the proposed increase, the Rate Payer Advocate will be working to help ensure that Recology and City staff justify the amount of any final approved increase in order to ensure it is "just and reasonable".

Thanks again for your email. Please visit the website over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information. Don't hesitate to contact us via this email address or by leaving a voicemail at (415)554-6921.

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Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Mark Huang [REDACTED]  
**Sent:** Saturday, April 06, 2013 3:14:02 PM  
**To:** RatePayerAdvocateSF  
**Subject:** basic governance?  
**Auto forwarded by a Rule**

As a relatively new resident of SF, I am befuddled by how Recology can be a gov't contractor yet not have a bid. How does this stand up to the light of day and why was a voter initiative even needed?

And surprise to all, they are raising rates...

What is the official city justification on how taxpayers funded public services are not put out in the open for competitive bid? My experience is that this is how things are done in the developing world aka corruption

Thanks

Mark Huang

**From:** Lauren Barbieri  
**To:** [REDACTED]  
**Bcc:** Peter Deibler; Kim Erwin  
**Subject:** RE: Feedback for Refuse Rate Hike Proposal  
**Date:** Thursday, April 11, 2013 2:13:00 PM

---

Dear Mr. Chun,

We received your email through the Department of Public Works, and want to thank you for your interest in the Recology refuse rate application process. We will ensure that your comments regarding illegal collection of recyclables are expressed during the application review process, including at tomorrow's public hearing at City Hall from 1:00-5:00pm. To give you a little background on who we are- The Ratepayer Advocate has been contracted by the Office of Contract Administration to serve as an independent representative of the public's interest in the 2013 refuse rate application proceedings. It is understandable that it may be difficult for ratepayers to attend meetings, and as such, it is part of our job to receive your comments via phone or email, and reflect them in the rate application process. In addition, we will be working to help ensure that Recology and City staff justify the amount of any final approved increase in order to ensure it is "just and reasonable". Please visit the website over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information. Don't hesitate to contact us via this email address or by leaving a voicemail at (415) 554-6921.

Thanks again

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Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Gordon, Rachel [<mailto:Rachel.Gordon@sfdpw.org>]  
**Sent:** Tuesday, April 09, 2013 4:45 PM  
**To:** Legg, Douglas; Ann Carey  
**Cc:** Peter Deibler  
**Subject:** FW: Feedback for Refuse Rate Hike Proposal

Hi. Can you please make sure this constituent's concerns are added to the record?  
I also sent him a link to the ratepayer advocate.

Thank you.

-- Rachel

---

**From:** Alex [REDACTED]  
**Sent:** Tuesday, April 09, 2013 4:34 PM  
**To:** Gordon, Rachel  
**Subject:** Fwd: Feedback for Refuse Rate Hike Proposal

Hi Rachael,

A few weeks back, I emailed the information email address on the SFDPW website about my concerns for the rate hike and asked for information on how I can voice these concerns.

I still have not heard back from anyone.

I looked at the website again and see an agenda for the refuse rate hike proposal. In the leaflet, I got your number with voicemail of this address.

So I want to know how I can voice my concern and my suggestions. Is the only option to attend the Public Hearing? I do work during the day so it will be a hindrance to do so.

I honestly believe that rather than a rate hike, we NEED to enforce recycling theft. We pay 5 cent CRV for containers that are being STOLEN daily.

This is the money that should be going towards funding the rate hike (the CRV recycling value that is).

Please let me know how can I voice this suggestion.

Thank you,  
Alex Chun  
[REDACTED]



**From:** Kim Erwin  
**To:** Lauren Barbieri  
**Subject:** FW: Request followup to Impound Acct question  
**Date:** Monday, April 15, 2013 10:36:28 AM

---

Response via verbal discussion at April 15 Hearing.

-----  
**From:** Nancy Wuerfel [REDACTED]  
**Sent:** Monday, April 15, 2013 10:36:17 AM  
**To:** RatePayerAdvocateSF  
**Subject:** Request followup to Impound Acct question  
**Auto forwarded by a Rule**

Hi Peter,

I would be grateful if you would request at today's hearing that the "DPW Recommended Order" include a statement that "if actual revenues are less than anticipated, the Impound Account will still be funded at the approved level."

The answer given on Friday that the "guarantee to this funding" is "in the rates" is not a legally binding answer. The only absolute requirements to be complied with by all parties are in the Recommended Orders. There is no reason why this request would be refused, since it ensures that the Impound Account will be fully funded at the level built into the rates. Just having statements "on the record" is not sufficient.

Also, please note from the DPW Rule of Procedure the following:

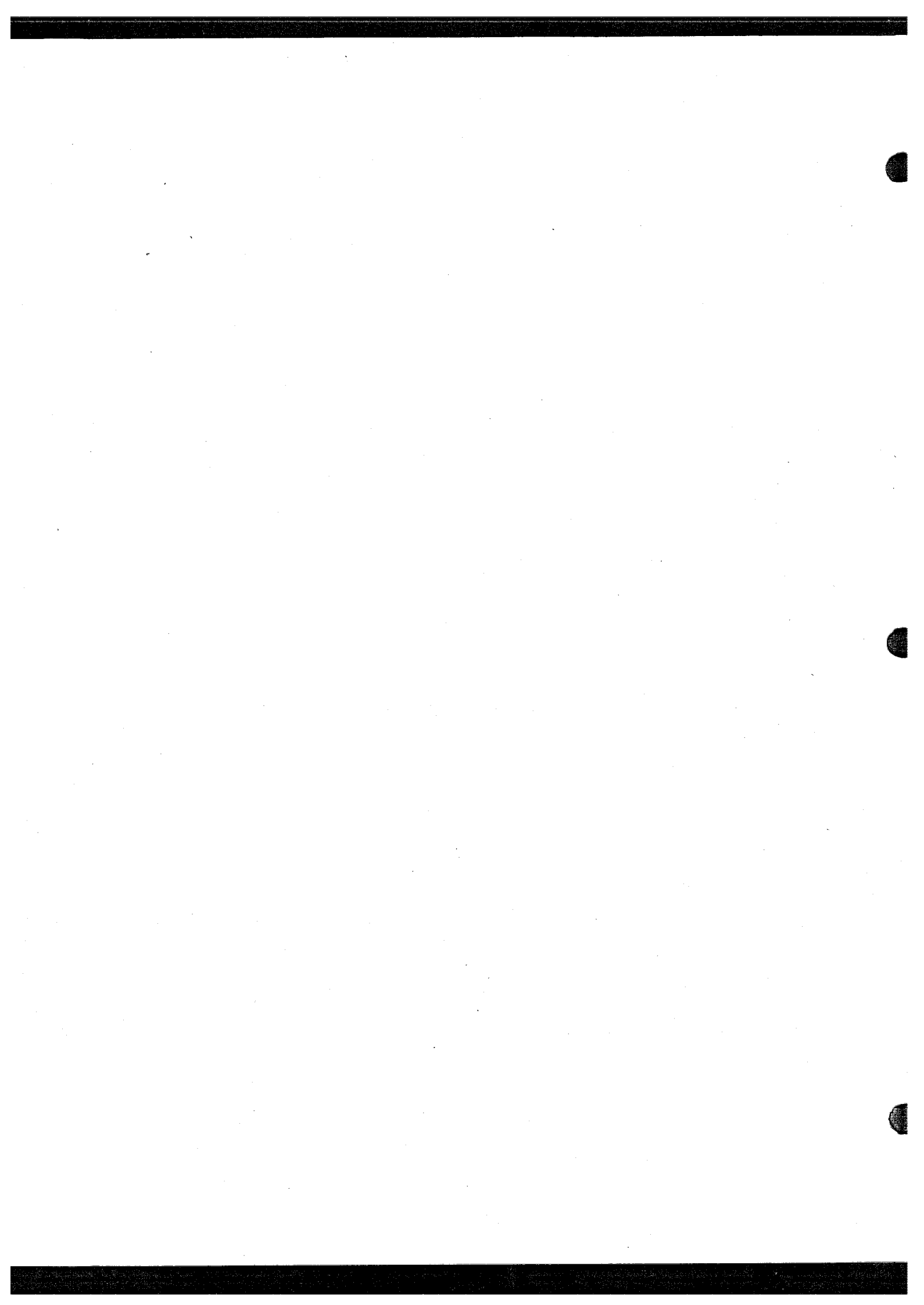
"N. Report and Recommended Order.

(1) Time for Filing. Upon the conclusion of the hearing and within 90 days after referral to the Director of the application(s), the Director shall make and file with the Chair of the Rate Board a Report on the application(s) and a Recommended Order.

(2) Contents. The Report shall include a set of findings of fact made by the Presiding Officer from the evidence taken and record made at the proceeding and a Recommended Order setting forth the effective date of any proposed change in rates, as well as any other discussion or material that the Presiding Officer considers necessary or appropriate."

Since the Impound Account is about \$20 million, I believe it is high time that this agreement to pay the city be put in writing in the Orders. Thanks for bringing this matter to the hearing today.

Sincerely,  
Nancy Wuerfel  
[REDACTED]



**From:** Lauren Barbieri  
**To:** [REDACTED]  
**Bcc:** Peter Deibler; Kim Erwin  
**Subject:** RE: Recology Rate Increase  
**Date:** Thursday, April 18, 2013 11:47:00 AM

---

Dear Anthony,

Thank you for contacting us regarding Recology's refuse rate application. To give you a little background on who we are- the Ratepayer Advocate has been contracted by the Office of Contract Administration to serve as an independent representative of the public's interest in the 2013 refuse rate application proceedings. It is part of our job to receive all comments, whether received via phone, email, post or in person, and represent them in the rate application process. As such, we will make certain your views and comments are expressed. In addition, we will be working to help ensure that Recology and City staff justify the amount of any final approved increase in order to ensure it is "just and reasonable," looking at economic indicators such as per capita income will be part of that. Please visit the website over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information. Don't hesitate to contact us via this email address or by leaving a voicemail at (415) 554-6921.

Thanks again.

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Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Anthony Singer [REDACTED]  
**Sent:** Tuesday, April 16, 2013 4:53:40 PM  
**To:** [david.campos@sfgov.org](mailto:david.campos@sfgov.org)  
**Cc:** RatePayerAdvocateSF  
**Subject:** Recology Rate Increase  
**Auto forwarded by a Rule**

Hi David,

I hope this note finds you well.

Could I please make a quick comment on the proposal by Recology to up their rates by an average of 21.51%.

The comment - without wanting to give offence, and in the gentlest way possible - is "WTF?"

I have looked at the CPI figures over the last five years. I have looked at our household income of the last five years. And this gratuitous 21%+ increase is significantly out of kilter.

I can't help feeling that if this gem had been publicized before the referendum then they would not have met with success. Do they need the money to pay for all of those billboard advertisements they bought?

**I am particularly appalled by the requirement that only mailed letters will be counted as protests (not emails, not faxes). A transparent device to depress customer response.**

Could you please let me know what your position on this?

Thanks for taking the time to read this letter.

Cheers,

Anthony Singer

[Redacted]

**From:** Lauren Barbieri  
**To:** [REDACTED]  
**Subject:** FW: Proposed Increased Garage Rates  
**Date:** Thursday, April 18, 2013 3:27:00 PM

---

Mr. Laupheimer – we also received your email from the DPW and want to thank you for your interest in the refuse rate application process. To give you a little background on who we are- The Ratepayer Advocate has been contracted by the Office of Contract Administration to serve as an independent representative of the public's interest in the 2013 refuse rate application proceedings. It is part of our job to receive your comments via phone or email, and reflect them in the rate application process. In addition, we will be working with City and Recology staff to help ensure that any final approved rate increase is "just and reasonable". Please visit the website over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information. Don't hesitate to contact us via this email address or by leaving a voicemail at (415) 554-6921.

Thanks again.

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Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Paul Giusti [<mailto:PGiusti@recology.com>]  
**Sent:** Thursday, April 18, 2013 2:45 PM  
**To:** [REDACTED]  
**Cc:** Peter Deibler  
**Subject:** RE: Proposed Increased Garage Rates

Dear Mr. Laupheimer,

Thank you for your email and the opportunity to respond. First off let me apologize for any incorrect information you received and any inconvenience caused because of it. The only excuse I can offer is this new rate structure has been evolving and although we are trying our best to communicate it throughout the organization we must have missed someone, or they misunderstood!

To answer your question the proposed \$2.00 charge is for the 32-gallon blue and green bin respectively. A 64-gallon blue and green bin would be \$4.00 each and a 96-gallon \$6.00 each. What is interesting in this proposal is for the first time in our rate setting there would be a financial incentive for waste reduction (albeit a small one) across the entire waste stream, not just the trash bin.

As a customer service gesture for your trouble I have taken the liberty of applying a one month credit to your account for \$27.91. This way if you want to keep the larger carts it will offset the increased costs for several months at least. Of course if you would like to have your smaller carts back we would be glad to do so at no cost to you, the one month credit will still be applied to your bill, and your future bill would not reflect the larger blue and green cart should the rate proposal be approved.

We sincerely hope this has answered your question and once again apologies for any inconvenience caused by this. Please don't hesitate to let us know if you have any other issues or concerns we can address.

Paul Giusti  
Recology Sunset Scavenger

---

**Sent:** Wednesday, April 17, 2013 3:07 PM  
**To:** Peter Deibler; DPW;  
**Cc:** Paul Giusti  
**Subject:** RE: Proposed Increased Garage Rates

Thanks, Peter.

I'm copying Paul Giusti so he can make sure their customer service and outreach people are on top of this, and possibly to reach out to Mr. Laupheimer as well.

---

**From:** Peter Deibler [<mailto:pdeibler@hfh-consultants.com>]  
**Sent:** Wednesday, April 17, 2013 2:37 PM  
**Subject:** RE: Proposed Increased Garage Rates

Yes, thanks, we will at HF&H.

Peter

---

**From:** DPW [DPW@sfdpw.org]  
**Sent:** Wednesday, April 17, 2013 2:23 PM  
**To:** Peter Deibler; Ann Carey; Legg, Douglas  
**Subject:** FW: Proposed Increased Garage Rates

Hi,

Could someone respond to this person if necessary?

Thanks

---

**From:** Ron Laupheimer [REDACTED]  
**Sent:** Wednesday, April 17, 2013 1:10 PM  
**To:** DPW  
**Subject:** Proposed Increased Garage Rates  
**Importance:** High

Sir/Madam---

I have a question about the proposed new garbage rates. Recology would not answer my question. Instead, it referred me to your Department and your Department's website.

Under the proposed increased garbage rates, there is what appears to be a new \$2 charge each "per 32-gallons of bin capacity" for recycling and compositing bins (that is what the Notice of Proposed Rate Changes states in the material received today from Recology). Is that proposed \$2 charge scheduled to be the same amount for 64-gallon recycling and compositing bins? I cannot not find anything in Recology's revised proposed rate increase application on your website that specifically deals with that issue.

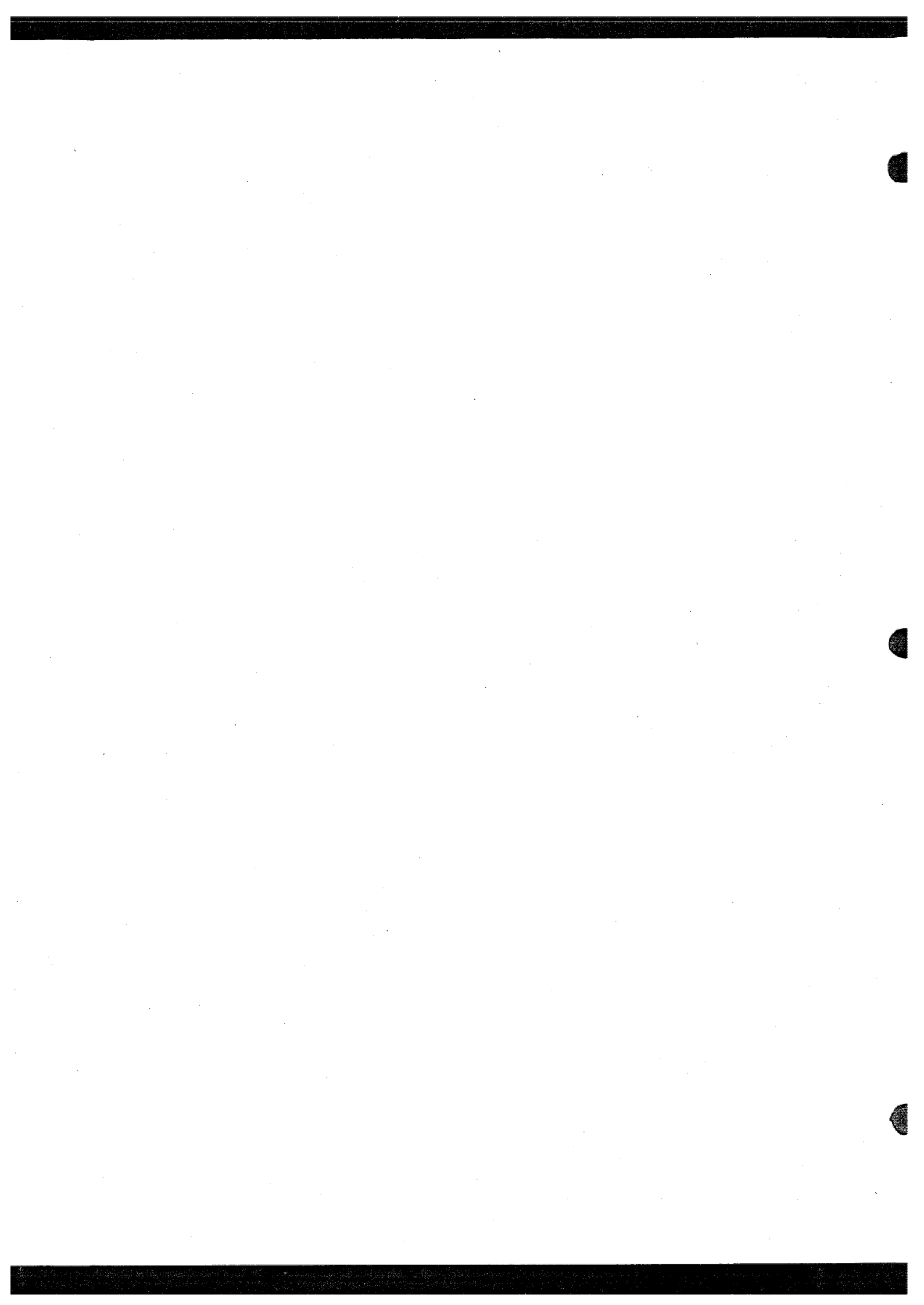
Because I knew that a new garbage rate was being proposed by Recology, I specifically asked Recology two months ago whether there would be an increased charge for the larger recycling and compositing bins both then and in the future and was told "No." Thus, I requested and received 64 gallon bins to replace my 32 gallon recycling and compositing bins. Because the proposed new fees for the recycling and compositing bins appear to be geared toward 32 gallon bins ("per 32-gallons of bin capacity"), I want to know if the same \$2 rate applies to 64 or 96 gallon recycling and compositing bins. Thanks.

Ron Laupheimer

[REDACTED]



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**From:** Lauren Barberi  
**To:** [REDACTED]  
**Bcc:** Peter Delbler; Kim Erwin  
**Subject:** RE: Question about proposed rates  
**Date:** Thursday, April 18, 2013 4:52:00 PM

---

Mr. Wantman,

Thank you for contacting us regarding Recology's refuse rate application. It is our understanding that only the volume based charges will be multiplied by the number of pick-ups, and the \$5.00 charge will be a single charge per unit per month. Recology has provided some example calculations in the following document that you may be interested in:

<http://www.sfzerowasterates.com/sfzerowasterates/wp-content/uploads/2013/03/Rate-Application-Presentation-Second-Workshop-with-City-Compatibility-Mode.pdf>. Please note that the structure and rate cap are ongoing topics that will be discussed at the hearings next week. Also, Recology has committed to developing an online calculator for ratepayers to use so that they may see the effect of new rates at their current or adjusted service level. Please visit our website over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information. Don't hesitate to contact us via this email address or by leaving a voicemail at (415) 554-6921.

Thanks again.

**San Francisco Ratepayer Advocate**

Representing the Public Interest

C/O HF&H Consultants

201 North Civic Drive, Suite 230

Walnut Creek, California 94596

Phone: (415) 554-6921

Email: [ratepayeradvocatesf@hfh-consultants.com](mailto:ratepayeradvocatesf@hfh-consultants.com)

Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Samuel Wantman [REDACTED]  
**Sent:** Tuesday, April 16, 2013 4:28:13 PM  
**To:** RatePayerAdvocateSF  
**Subject:** Question about proposed rates  
Auto forwarded by a Rule

Hi,

I've been looking a bit on-line, trying to understand the new rate structure proposed by Recology, and I have not been able to find out one thing:

How will multiple pick-ups be calculated? Recology is proposing to add a \$5 charge per unit, per month. Previously, if there were multiple pickups the rate would be multiplied as well, so being picked up twice a week would be twice as much as being picked up once a week. In the proposal, will the total of all the charges be multiplied by the number of pickups or just the Volume based charges (without the \$5 charge per month per unit)?

Thanks.

Samuel Wantman

**From:** Ron Laupheimer  
**To:** PGiusti@recology.com  
**Cc:** Lauren Barbieri; DPW@sfdpw.org  
**Subject:** RE: Proposed Increased Garage Rates  
**Date:** Friday, April 19, 2013 5:36:21 PM

---

Paul---

Thank you for your prompt response to my inquiry. [For your records, your email was addressed incorrectly and never reached me. It was only because Lauren from the Ratepayer Advocate's office emailed me that I knew of your response to my question. Please make sure our proper email address is in your files.]

Thank you also for your customer service gesture of a month's credit to our account. However, I must admit I was disappointed to hear about the higher charge for the larger recycling and compost bins since that is directly opposite of what I was told just a couple of months ago when I first inquired about getting larger bins and also asked whether the proposed rate increase would affect our monthly bill in any way. I think that you should more clearly explain in your proposal and testimony supporting your proposal the higher cost for the larger compost and recycling bins by stating their specific increased costs by the gallon size bin rather than relying on the phrase "\$2 per 32-gallon of bin capacity" language. What you state is accurate but somewhat confusing, and I believe my suggestion will help your customers understand the different bin costs better and thus be able to make better decisions regarding which bins they desire.

**Please send us back our smaller 32-gallon compost and recycling bins at your convenience**—we never fill our 32-gallon compost bin and frequently do not fill our 32-gallon recycling bin. Although I prefer to keep the larger recycling bin since there were times that the 32-gallon recycling bin was filled to capacity or slightly beyond, I do not want to pay the additional charge when I likely can make the 32-gallon recycling bin work. We want to continue the smaller 20-gallon trash bin that we currently have since we never come close to filling it.

Ron Laupheimer



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**From:** Lauren Barbieri [mailto:lbarbieri@hfh-consultants.com]  
**Sent:** Thursday, April 18, 2013 3:28 PM  
**To:** [REDACTED]  
**Subject:** FW: Proposed Increased Garage Rates

Mr. Laupheimer – we also received your email from the DPW and want to thank you for your interest in the refuse rate application process. To give you a little background on who we are- The Ratepayer Advocate has been contracted by the Office of Contract Administration to serve as an independent representative of the public's interest in the 2013 refuse rate application proceedings. It is part of our job to receive your comments via phone or email, and reflect them in the rate application process. In addition, we will be working with City and Recology staff to help ensure that any final approved rate increase is "just and reasonable". Please visit the website over the next several months at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information. Don't hesitate to contact us via this email address or by leaving a voicemail at (415) 554-6921.

Thanks again.

**San Francisco Ratepayer Advocate**

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Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Paul Giusti [<mailto:PGiusti@recology.com>]  
**Sent:** Thursday, April 18, 2013 2:45 PM  
**To:** [REDACTED]  
**Cc:** Peter Deibler  
**Subject:** RE: Proposed Increased Garage Rates

Dear Mr. Laupheimer,

Thank you for your email and the opportunity to respond. First off let me apologize for any incorrect information you received and any inconvenience caused because of it. The only excuse I can offer is this new rate structure has been evolving and although we are trying our best to communicate it throughout the organization we must have missed someone, or they misunderstood!

To answer your question the proposed \$2.00 charge is for the 32-gallon blue and green bin respectively. A 64-gallon blue and green bin would be \$4.00 each and a 96-gallon \$6.00 each. What is interesting in this proposal is for the first time in our rate setting there would be a financial incentive for waste reduction (albeit a small one) across the entire waste stream, not just the trash bin.

As a customer service gesture for your trouble I have taken the liberty of applying a one month credit to your account for \$27.91. This way if you want to keep the larger carts it will offset the increased costs for several months at least. Of course if you would like to have your smaller carts

back we would be glad to do so at no cost to you, the one month credit will still be applied to your bill, and your future bill would not reflect the larger blue and green cart should the rate proposal be approved.

We sincerely hope this has answered your question and once again apologies for any inconvenience caused by this. Please don't hesitate to let us know if you have any other issues or concerns we can address.

Paul Giusti  
Recology Sunset Scavenger

---

**Sent:** Wednesday, April 17, 2013 3:07 PM  
**To:** Peter Deibler; DPW;  
**Cc:** Paul Giusti  
**Subject:** RE: Proposed Increased Garage Rates

Thanks, Peter.

I'm copying Paul Giusti so he can make sure their customer service and outreach people are on top of this, and possibly to reach out to Mr. Laupheimer as well.

---

**From:** Peter Deibler [<mailto:pdeibler@hfh-consultants.com>]  
**Sent:** Wednesday, April 17, 2013 2:37 PM  
**Subject:** RE: Proposed Increased Garage Rates

Yes, thanks, we will at HF&H.

Peter

---

**From:** DPW [DPW@sfdpw.org]  
**Sent:** Wednesday, April 17, 2013 2:23 PM  
**To:** Peter Deibler; Ann Carey; Legg, Douglas  
**Subject:** FW: Proposed Increased Garage Rates

Hi,

Could someone respond to this person if necessary?

Thanks

---

**From:** Ron Laupheimer [REDACTED]  
**Sent:** Wednesday, April 17, 2013 1:10 PM  
**To:** DPW  
**Subject:** Proposed Increased Garage Rates  
**Importance:** High

Sir/Madam---

I have a question about the proposed new garbage rates. Recology would not answer my question. Instead, it referred

me to your Department and your Department's website.

Under the proposed increased garbage rates, there is what appears to be a new \$2 charge each "per 32-gallons of bin capacity" for recycling and compositing bins (that is what the Notice of Proposed Rate Changes states in the material received today from Recology). Is that proposed \$2 charge scheduled to be the same amount for 64-gallon recycling and compositing bins? I cannot not find anything in Recology's revised proposed rate increase application on your website that specifically deals with that issue.

Because I knew that a new garbage rate was being proposed by Recology, I specifically asked Recology two months ago whether there would be an increased charge for the larger recycling and compositing bins both then and in the future and was told "No." Thus, I requested and received 64 gallon bins to replace my 32 gallon recycling and compositing bins. Because the proposed new fees for the recycling and compositing bins appear to be geared toward 32 gallon bins ("per 32-gallons of bin capacity"), I want to know if the same \$2 rate applies to 64 or 96 gallon recycling and compositing bins. Thanks.

Ron Laupheimer



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**From:** [Scanlon, Olivia](#)  
**To:** [Lauren Barbieri](#)  
**Cc:** [Peter Deibler](#)  
**Subject:** RE: constituent in D. 7 would like information.  
**Date:** Monday, April 22, 2013 12:37:12 PM

---

Thanks so much.

Olivia Scanlon  
Legislative Aide to Supervisor Norman Yee  
District 7  
1 Dr. Carlton B. Goodlett Place  
Room 244  
San Francisco, CA 94102  
415 554 6519

---

**From:** Lauren Barbieri [mailto:[lbarbieri@hfh-consultants.com](mailto:lbarbieri@hfh-consultants.com)]  
**Sent:** Friday, April 19, 2013 3:04 PM  
**To:** Scanlon, Olivia  
**Cc:** Peter Deibler  
**Subject:** RE: constituent in D. 7 would like information.

Hi Olivia,

I just got off the phone with Mr. Moran, and believe I answered his questions and left him my direct line for any additional thoughts/questions. Please feel free to send me or pass my information on to any other constituents with questions regarding the Recology rate review process.

Thanks again

**Lauren Barbieri**

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**From:** Scanlon, Olivia [mailto:[olivia.scanlon@sfgov.org](mailto:olivia.scanlon@sfgov.org)]  
**Sent:** Friday, April 19, 2013 12:56 PM  
**To:** Lauren Barbieri  
**Cc:** Peter Deibler  
**Subject:** RE: constituent in D. 7 would like information.

Thank you so much.

Olivia Scanlon  
Legislative Aide to Supervisor Norman Yee  
District 7  
1 Dr. Carlton B. Goodlett Place  
Room 244

San Francisco, CA 94102  
415 554 6519

---

**From:** Lauren Barbieri [<mailto:lbarbieri@hfh-consultants.com>]  
**Sent:** Friday, April 19, 2013 12:52 PM  
**To:** Scanlon, Olivia  
**Cc:** Peter Deibler  
**Subject:** RE: constituent in D. 7 would like information.

Hi Olivia,  
Yes, I'd be happy to. I will call Mr. Moran this afternoon.

**Lauren Barbieri**  
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**From:** Scanlon, Olivia [<mailto:olivia.scanlon@sfgov.org>]  
**Sent:** Friday, April 19, 2013 12:08 PM  
**To:** Lauren Barbieri  
**Subject:** RE: constituent in D. 7 would like information.

Lauren,  
Would you call the constituent ? if so his name is Martin Moran at [REDACTED]

Many thanks,

Olivia Scanlon  
Legislative Aide to Supervisor Norman Yee  
District 7  
1 Dr. Carlton B. Goodlett Place  
Room 244  
San Francisco, CA 94102  
415 554 6519

---

**From:** Lauren Barbieri [<mailto:lbarbieri@hfh-consultants.com>]  
**Sent:** Thursday, April 18, 2013 3:57 PM  
**To:** Scanlon, Olivia  
**Subject:** RE: constituent in D. 7 would like information.

Hi again Olivia,  
I meant to also include my direct line (925) 977-6958 – please feel free to pass it on in addition to or in lieu of the main Ratepayer Advocate line, also – if you would prefer to have me contact them directly, feel free to pass their contact info to me and I will follow-up.  
Thanks again.



**San Francisco Ratepayer Advocate**

Representing the Public Interest

C/O HF&H Consultants

201 North Civic Drive, Suite 230

Walnut Creek, California 94596

Phone: (415) 554-6921

Email: [ratepayeradvocatesf@hfh-consultants.com](mailto:ratepayeradvocatesf@hfh-consultants.com)

Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Lauren Barbieri

**Sent:** Thursday, April 18, 2013 3:42 PM

**To:** 'olivia.scanlon@sfgov.org'

**Subject:** RE: constituent in D. 7 would like information.

Hi Olivia,

Please feel free to direct them to our website [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org), or to call us at (415) 554-6921 or email us at [ratepayeradvocatesf@hfh-consultants.com](mailto:ratepayeradvocatesf@hfh-consultants.com). We check emails and voice messages frequently and will respond promptly to any comments or information requests.

Thanks so much, have a nice day.

-Lauren

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Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Scanlon, Olivia [<mailto:olivia.scanlon@sfgov.org>]

**Sent:** Thursday, April 18, 2013 1:04 PM

**To:** RatePayerAdvocateSF

**Subject:** re: constituent in D. 7 would like information.

I would like the rate payer advocate to contact a constituent in District 7 and answer questions he has regarding a recent mailer that Recology sent out outlining increases in garbage rates, Please let me know to whom can I refer this person ?

Many thanks,

Olivia Scanlon  
Legislative Aide to Supervisor Norman Yee  
District 7  
1 Dr. Carlton B. Goodlett Place  
Room 244  
San Francisco, CA 94102  
415 554 6519

**From:** Peter Deibler  
**To:** Lauren Barbieri  
**Subject:** RE: 2012 Hearing Officer Report  
**Date:** Tuesday, April 23, 2013 9:10:13 AM

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Thanks, you don't need to respond. I spoke with her yesterday.

FYI, she is emailing us a set of questions/comments to add to the material we compile today. I told her we need it by early PM.

**Peter Deibler**

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Phone: (925) 977-6968

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**From:** Lauren Barbieri  
**Sent:** Tuesday, April 23, 2013 9:08 AM  
**To:** Peter Deibler  
**Subject:** FW: 2012 Hearing Officer Report

Hi Peter-

This sounds like it may be the continuation of a conversation you may have had with Nancy? Did she talk to you at the hearing yesterday? If not, would like to discuss before I respond.

**Lauren Barbieri**

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**From:** Kim Erwin [<mailto:kerwin@hfh-consultants.com>]  
**Sent:** Monday, April 22, 2013 11:48 AM  
**To:** Lauren Barbieri  
**Subject:** FW: 2012 Hearing Officer Report

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**From:** Nancy Wuerfel [REDACTED]  
**Sent:** Monday, April 22, 2013 11:47:26 AM  
**To:** RatePayerAdvocateSF  
**Subject:** 2012 Hearing Officer Report  
**Auto forwarded by a Rule**

Hi,

Do you have a hard copy of the exhibits 1-9 that accompanied the May 8, 2012 report from Greg Wagner who was the Hearing Officer for the Refuse Rate application a year ago? His report is ex. 14

presented at the current hearings, but I need to review the exhibits themselves. If you have them, can you bring them today?

Thanks,  
Nancy Wuerfel

**From:** Lauren Barbieri  
**To:** [REDACTED]  
**Bcc:** Peter Deibler; Kim Erwin  
**Subject:** RE: Questions RE Rate Increases  
**Date:** Tuesday, April 23, 2013 12:18:00 PM

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Dear Tala,

Thank you for contacting us. The last hearing is tomorrow (Wednesday, April 24) from 1-5PM in Room 400 of City Hall. Public comment will be at some point after 4PM and speakers are allowed 5 minutes each. We encourage you to come if you can, and also to visit the website at [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org) for more information.

The Rate Payer Advocate (RPA) is entering an exhibit of public comments tomorrow which will become part of the official hearing record, and we will include your email (without the personal information). He will be noting that both City staff and Recology staff should review the comments to see the types of concerns that are being expressed.

Here are responses for some of the issues you've raised:

1. Regarding "reasonable rate of return", the company receives an "operating ratio" of 91%. In effect this is a little less than 10% profit. This is generally reasonable and follows past practice.
2. On the abandoned materials and other City programs, the RPA cross-examined Department of Public Works (DPW) staff on this topic at yesterday's hearing. We're comfortable at this point that the transfer makes sense in general, and at the May hearings will be asking about how they will monitor Recology's performance.
3. We understand your concern about the fixed charge, but practically speaking it will apply per account, not by household.
4. We're comfortable that the fixed charge does not represent double-counting. The RPA will be asking Recology and City staff a series of questions about the rate structure changes tomorrow.
5. The discount is for the relative amount of blue and green bin volume, vs that for the black bin, minus 10%. For example, if you have 1 32-gallon black bin, 2 32-gallon blue bins (or 1 64-gallon), and 1 32-gallon green bin, 75% of your total volume capacity of 128 gallons is for blue and green service. So, you would receive a discount of  $75\% - 10\% = 65\%$ . The \$2.00 charges and the discounts are logical, albeit confusing. As black bin volumes decline with higher levels of diversion from landfill, it makes sense to begin to charge for the blue and green bins. Recology has provided some example calculations in the following document that you may be interested in: <http://www.sfzerowasterates.com/sfzerowasterates/wp-content/uploads/2013/03/Rate-Application-Presentation-Second-Workshop-with-City-Compatibility-Mode.pdf>. In addition, Recology has committed to develop an online calculator for ratepayers to use so that they may see the effect of new rates at their current or adjusted service level. Recology's goal is to provide methods for customers to minimize the impact of any increase, and in many cases to change service in a way that allows them to pay a rate that is lower than today's.

6. The City is reviewing audited financial statements as part of reviewing the rate application, and specific areas of projected costs and revenues are topics for the hearings. When rates are set, there are agreed-upon COLA adjustments (subject of quite a bit of testimony and cross-examination at the hearings). Until rates are re-set, rate payers and the company share the risk that actual COLAs will be greater (or less) and that revenues will be higher or lower than anticipated. In this case, the company received no COLA's for the past two years and revenues were substantially below projections for the past 3-4 years. So, rate payers have actually done fairly well over the past few years. As we understand it, at other times in the past, the company has benefitted more. Sharing these risks is a trade-off with doing complex and expensive rate reviews more often.
7. The recycling services provided by Recology legitimately do cost money. Why? Because the cost of collection is greater than the net revenue that is made from processing and selling the material. This is true throughout the country. Recycling generally makes money if there is no need for collecting from dispersed locations, e.g., individual customers. The RPA will be making the point during the hearings that Recology (and the City) need to more effectively get out this message. As we approach zero waste, there will still be costs for both the blue and green bins.
8. Theft deterrence has been raised several times in the hearings and the RPA will be asking Recology and the City a series of questions on this tomorrow. The key focus probably needs to be on how to deter large-scale organized pilfering of materials which has sharply increased over the past few years.

We hope to see you at the hearing if you can make it. There will also be hearings on May 20 and 22<sup>nd</sup> once DPW has issued its draft recommendation.

Regards,

**San Francisco Ratepayer Advocate**

Representing the Public Interest

C/O HF&H Consultants

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Website: [www.ratepayeradvocatesf.org](http://www.ratepayeradvocatesf.org)

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**From:** Tam Tam [REDACTED]  
**Sent:** Saturday, April 20, 2013 10:08:44 PM  
**To:** RatePayerAdvocateSF  
**Subject:** Questions RE Rate Increases  
**Auto forwarded by a Rule**

Dear Rate Payer Advocates,

I am very concerned about the Recology San Francisco rate increases. While I appreciate the questions & answers you have requested to date, I have some additional questions to put forward.

1. What is the "reasonable return rate on investment" that is proposed? This is the basis for the rate increase but I cannot find a declared amount. What is this amount and how does it compare to previous years and other counties?
2. How does the transfer of city abandoned waste & street container collection benefit the ratepayer? This seems to be to be double dipping, where ratepayers are paying for services already paid by the taxpayers. The city container collection cost alone was identified as being in excess of \$1.5 million so these costs are not insignificant.
3. Why does the proposed "household" fixed charge have no provision for granny units or in-law units? These units can be identified by mailing addresses & often the building records. Proposition 218 is clear that ratepayers should pay equal rates. Indeed, these units greatly contribute to street litter; abandoned waste & street refuse container usage. It is only fair that the proposed fixed charge if adopted, is applied equitably to all household dwelling units.
4. What is the rational (other than greed) to impose a fixed charge? Proposition 218 court decisions already impose an "availability" rate charge guarantee for services. It is unconscionable that the ratepayer is double charged with both a household unit charge & a bin charge regardless of usage. Once again, where is the justification for a "reasonable investment return rate"?
5. I do not understand the "discount" for apartment recycling. Where can ratepayers get an explanation and information on the rate change amount for the nebulous description of these proposed discounts? This is my most poignant concern. As the owner of an owner-occupied four-unit residential building, we have reduced solid waste pick-up to 64 gallons a week. The actual usage can now be reduced to 32 gallons. This has been done with significant tenant education, motivation & my time expense. My current bill (less "special reserve surcharge") is \$55.10. Under the proposed rate plan, my bill would escalate to \$83.00 per month. This is a 51% increase based upon the proposed rate increases as follows:  
\$20.00 unit fixed charge (4 units @\$5.00/unit)  
\$12.00 bin charge (96 gal X 2 bins-1 blue/1green)  
\$51.02 64 gal solid waste bin disposal charge).  
\$83.02 Total  
(Special reserve surcharge ???)

I suspect that residential owners will be in a similar position if this recycling rate "discount" applies to these accounts also. It is **not** clear if this "discount" applies to all customers. It is **not** clear what this discount is. How is it calculated? This needs clarification. It needs to be clearly stated for the record. It is unconscionable that Recology has led us to believe that recycling would reduce our rate costs & benefit the ratepayer. With this rate proposal, it is clear that residents of San Francisco are being charged for recycling. Why is Recology not able to make a profit? They need to explain this business deficit. Ratepayers should not subsidize private business incompetence.

6. Why are ratepayers charged for "bins" that recycle & not charged for a solid waste bin? This represents a clear loophole for a future "bin" fee in addition to the proposed disposal fee making a duplicate fee increase in the future. Additionally, a bin fee for Zero waste would be inappropriate. Bin fees should NOT be a set refuse or recycle expense. A zero solid waste bin fee should be a credit.
7. What will the volume special reserve surcharge be based on? The proposed rate increases

for recycling are volume based. Why is this not discussed detail? With the current proposals, everyone can be charged 1.3% for all materials disposed both waste & recycling. This creates a loophole of immense proportions based upon volume disposal fees. This loophole needs to be closed.

8. Please help me understand these Recology rate increases. The inflation rate for San Francisco has not been over 3% for the past 4 years (Bureau of Labor Statistics). COLA is at a current high of 3% ( <http://www.bls.gov/ro9/cpisanf.htm> ). It is my opinion that an independent audit of ratepayers' payment and Recology business expenses should be performed before there is a ratepayer increase. The present review is flawed & certainly, an outside professional audit is indicated. At the very least, the tip transfer fee charged by the same parent company represents a monopoly rate. How is this rate determined? Ratepayers should be assured that this is not an inflated rate compared to other counties. Projections at this point do not reflect monies saved in previous or future years. What is the projected rate of return please? What is the average return rate over 5 years? If these questions cannot be answered, an outside audit should be performed.

9. A contract exceeding 1 year should not be entered into. The residential cap is for 1 year & appears to have a built in 25% increase for 2014. Superficially, Recology has been less than honest with the residents of San Francisco. I truly thought that we were making money with our recycling efforts & voted against any change. To see the proposed rate increases demonstrates that non-competition results in excessive monopoly-type rate increases beyond inflation or the cost of living. I find it unreasonable that we will be charged for our positive modified behaviors which resulted in recycling beyond the national precedent. These efforts represent both personal action & inconvenience. If these desired behavior changes results in a cost increase, it will not be successful. I for one will let the recycle thieves seal all the valuable materials to reduce my volume. I will not separate my tenants mixed debris. Why should I? I will be billed for it anyway. Most important, I have been BETRAYED by the Recology "success" stories. I have always recycled, I have always been concerned with the environment. Setting a precedent that citizens must pay for recycling is something that I cannot support. Recycling is big money. If this is the case, we need a success driven company & not a monopoly, which cannot make money from ratepayer recycling efforts.

10. Why has a comprehensive recycle theft deterrent not been implemented? This is the crux of recycling revenue. Unsecured separate bins support criminal recycling theft. This company has never been effectively concerned with recycle theft. They have never prosecuted, nor provided effective theft deterrents for the recycling component of company property/assets. This is a waste of ratepayer's resources. There are elements that do not have the ratepayers' interest in mind. Certain board of Supervisors view recycling theft as "entrepreneurship". To me it is just like dealing drugs, a neighborhood blight & safety issue. The SFPD & DA see this as a property crime & not worth the bother. This is a clear message to Recology that they need to safeguard the customers' interest & their revenue without city support. What do they propose to prevent recycle theft? Deterrents to date are not effective & city agencies are adversarial. What is the proposed plan to prevent recycle theft & increase recycling profits? It is not ratepayer's responsibility to protect private business property. Likewise, what do they do to protect their property? Answer, NOTHING. No rate increase should be allowed until a comprehensive plan is developed to protect the ratepayers' recycling efforts against theft and secure both Recology's & the ratepayers' recycling effort benefits. I do not wish to support criminal recycling and be billed by Recology for my recycling effort while providing thieves sorted bins.

11. What is the 16.7% "shortfall" & a 4% loss in recycling revenue reported in Recology's rate application? <http://sfdpw.org/modules/showdocument.aspx?documentid=2931> . Perhaps it is time for an audit or find another company to meet our needs better. Again, no bailouts!



12. Recology needs to be transparent in their requests for rate increases to the ratepayers. Recology needs to respond to inquiries in a manner that ratepayers can understand. We do not want to see appendixes nor clever accounting. Again, what is the rate of return on investment that Recology is demanding by this rate increase? This is the question that needs to be answered and both the ratepayers advocate & DPW are responsible to answer to this question by mandate.

Thank you for your attention. I want to conclude by stating that I received my notice of Public Hearing on April 17th. How is this possible? Informational hearings began in March. Surely, this after-the-fact- notice is not in the interest of all concerned parties. Recology must comply with the law and justify a rate increase with a reasonable rate of return on investment.. Please let me know what this rate is. My 51% rate increase is neither just nor reasonable from the ratepayer perspective. I look forward to the responses to my questions.

Thank you,  
Tala Montoya

[REDACTED]

P.S. How long is a speaker allowed for public comment please?



**From:** [Kim Erwin](#)  
**To:** [Lauren Barbieri](#)  
**Subject:** FW: SPEAK COMMENTS on refuse rate application  
**Date:** Tuesday, April 23, 2013 4:34:24 PM  
**Attachments:** [SPEAK comments on Refuse Rate application.doc](#)

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**From:** Nancy Wuerfel [REDACTED]  
**Sent:** Tuesday, April 23, 2013 4:32:03 PM  
**To:** RatePayerAdvocateSF  
**Subject:** SPEAK COMMENTS on refuse rate application  
**Auto forwarded by a Rule**

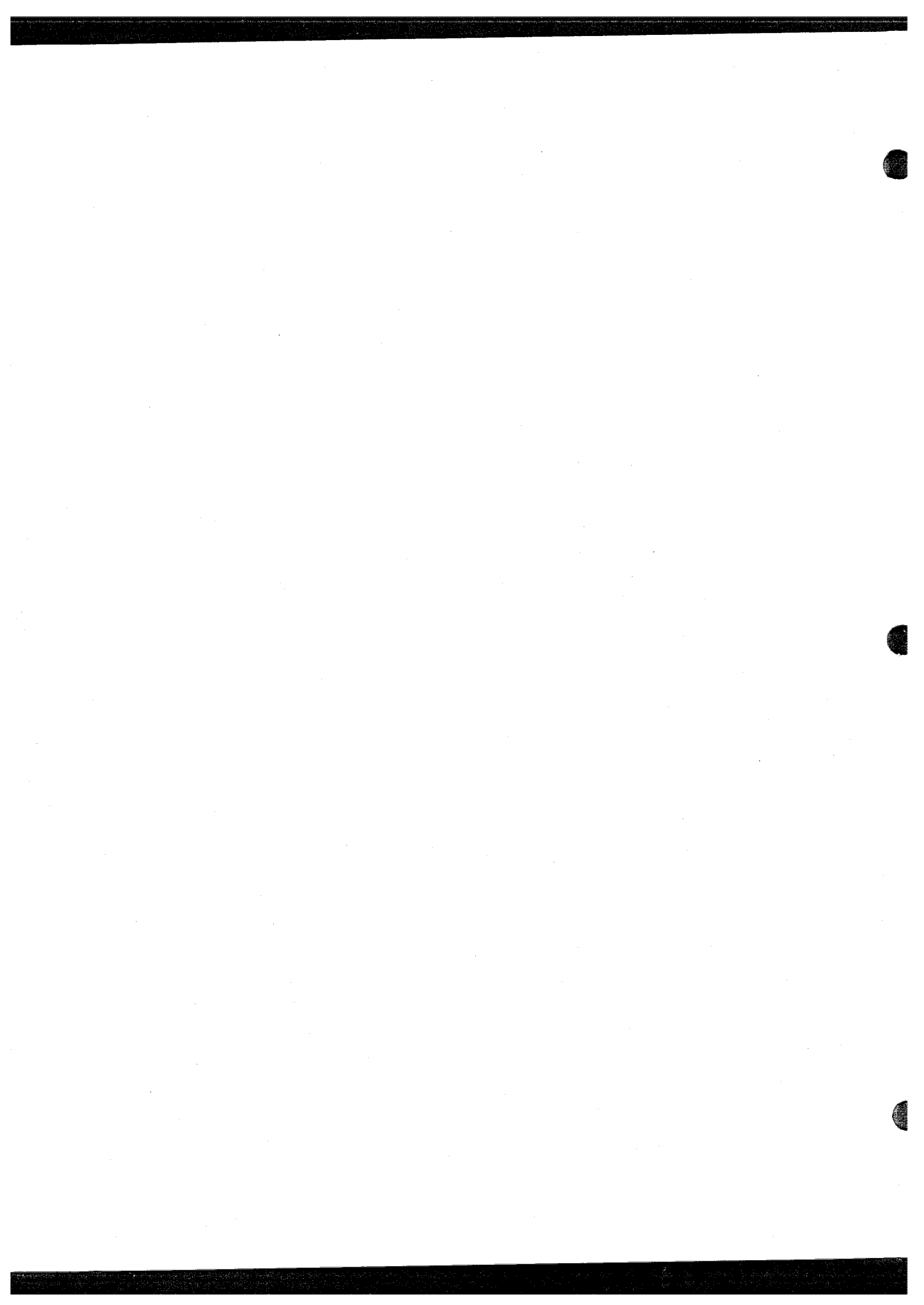
Hi Peter,

Attached are my comments for SPEAK to be submitted to the DPW Director. There is more to be said, but I have run out of time.

Please let me know you got this and can open the attachment.

Many thanks for your help.  
Nancy Wuerfel

[REDACTED]



NANCY WUERFEL, 2516 23<sup>RD</sup> AVENUE, SAN FRANCISCO, CA 94116

April 23, 2013

TO: Director of Department of Public Works

THROUGH: The San Francisco Ratepayer Advocate, c/o HFH Consultants

FROM: Nancy Wuerfel, Vice President, Sunset Parkside Education and Action Committee (SPEAK)

RE: Comments and Unresolved Issues about Recology's final Refuse Rate Application for 2013

Having attended each of the workshops and hearings on this application, for the record I am writing the following comments and unresolved issues that SPEAK would like to have addressed in the Staff Report and subsequently in the Director's Report and Order.

1. The 2010 Rate Board Directive was cited in a DPW Public Workshop held on March 20, 2012 that requested the DPW Director and Dept of Environment to engage in a public process to address the issue of "the extent to which the refuse rates should pay for litter and other street-related collection and disposal". Since DPW is a General Fund department financed by taxpayer's revenue, I interpret this directive to mean "how much of the current funding for these activities in DPW can be shifted onto refuse ratepayers?" The Hearing Officer's report of May 8, 2012 of that public hearing did not "define the extent" by declaring a percentage of city costs that are OK to shift to the rates.

- Therefore, as each application for new rates includes cost shifting of formerly city financed services over to the ratepayers, I request the Director's Report to set a maximum percentage level for any these program cost transfers and to make the percentage part of the Order. Since approval of the rates is a subjective decision of "just and reasonable", then the maximum amount of cost shifting for DPW's programs to keep the city clean should be capped in advance for future applications.
- Each time costs are shifted onto the rates, the Director's Report must state what other DPW programs those saved revenues will be assigned to and if any amount if returned to the General Fund. The goal is transparency in knowing who is paying for what services and how much.

2. The proposed Impound Account revenue allocated from the rates to DPW programs includes \$1 million for Education, Compliance and Outreach. Duties of staff for this program include issuing citations for violations of city laws, a function formerly performed by city-financed staff. The fines derived from these citations are deposited into the city account and are part of the general fund revenues.

- Enforcement of city laws by issuing citations must not be done by ratepayer funded staff. The revenue derived from fines does not go to offset the cost of issuing the citation; the money goes into the General Fund.

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- If ratepayer funded staff is to be assigned the job of issuing citations, then the Director of DPW must have legal access to these revenues to offset the expenses. This will likely require new legislation to accomplish directing certain fines to DPW.
3. The DPW budget in the Annual Appropriation Ordinance shows revenue from the Solid Waste Impound Account, but the expenses paid by these funds are not tied back to the refuse rates that fund the Impound Account in the AAO. As this income source has grown from \$1 million to almost \$6 million, it is time to provide greater transparency to the programs being supported by ratepayers.
- The Operating Budget of DPW should show in the AAO a distinct "annual budget" Impound Account category for the activities funded by the ratepayers. The details of the appropriation of these expenses should equal the revenue.
4. The carrying costs of land investment for the Zero Waste Facility Expansion have many unanswered questions. Because these acquisitions proposed to be financed by ratepayers have not yet been accomplished, and to explore other options to achieve this expansion, I urge the Director to hold specific public hearings on this very important topic BEFORE Recology decides on a course of action.
- Questions about the financing options, equity status of San Francisco in land financed by ratepayers, capital improvements, legal obligations implicit in the acquisitions, etc. need to be explored now to guide the expectations of all involved.
5. Discussion of the composting facilities identified capital improvements at two sites.
- Are these capital costs included in the rates? If so, what are the details about financing and amortization?
6. The Director should order the next application for an increase in rates to require the applicant to show the expenses expressed as supporting specific programs and corporation costs. In other words, the general public should be able to see \$220 million categorized providing XXX dollars for YYY services and ZZZ benefits, along with AAA overhead costs. Also, a high level summary of revenue for the \$220 million should be provided, showing ratepayer revenue, recycling revenue, compost revenue, etc.
7. The Director should order the legal enforcement of laws concerning the stealing of recyclables with local elected and law enforcement officials to curtail this increasing problem in the city. Theft is becoming more aggressive and dangerous to neighborhoods.
8. The Ratepayer Advocate position is essential to providing a link to the public for the rate process, and to provide additional analysis and comment to achieve a better outcome. Thanks to all that ensure this service continues.

This list is not exhaustive or in any particular order. Each point deserves consideration and action in the Director's Report and Orders.

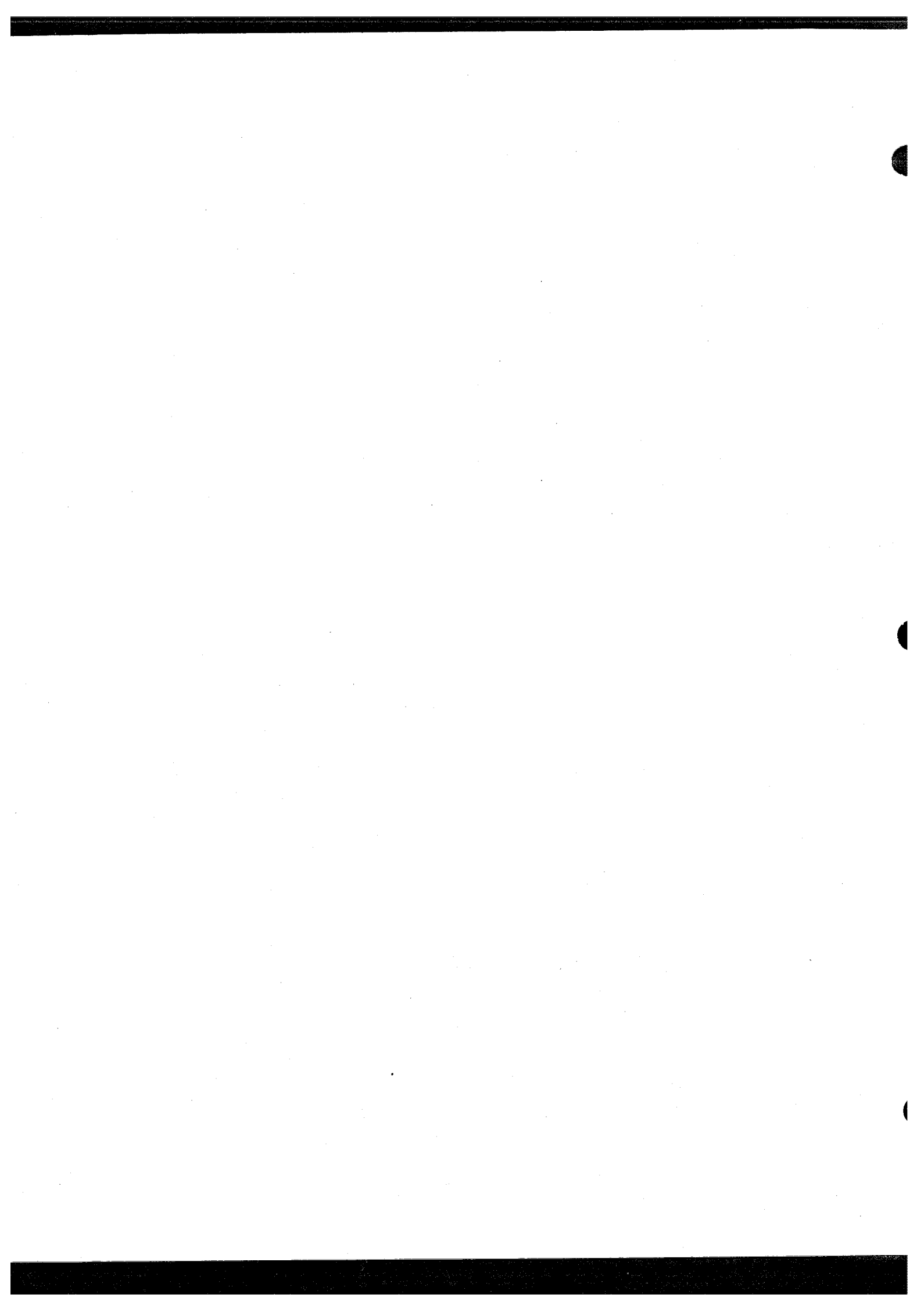
Thank you for considering these important issues.

This comment was received by Peter Deibler at the April 15, 2013 Continuation of Director's First Hearing.

"How does Recology plan to communicate the option for residential customers to downsize their black bin in order to lower their bills?"

-Michael Welman







# Staff Report on the 2013 Refuse Rate Application

May 10, 2013

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## 1. Introduction

On March 14, 2013, Recology San Francisco, Recology Sunset Scavenger, and Recology Golden Gate (collectively the "Companies") filed an Application with the Chair of the Refuse Collection and Disposal Rate Board requesting changes to the Companies' residential refuse collection and disposal rates. The Application was referred to the Director of Public Works (the "Director") for hearings, reports and recommendations as required by the 1932 Refuse Collection and Disposal Ordinance, as amended (the "1932 Ordinance").

This Report summarizes the Application, the public process responding to the Application, and the results and recommendations of the staff review. This report will be the subject of additional hearings by the Director, to be held in May 2013. At those hearings, staff will also introduce supporting documents referenced in this report.

## 2. Summary of the Companies' Application

The Companies' "2013 Rate Application" consists of the Application, supporting analyses prepared by independent experts, proposed rate schedules, descriptions of program and costs, historical information, revenue and expenditure forecasts, and assumptions underlying such forecasts. In addition, the Companies submitted audited financial statements for Recology San Francisco ("RSF"), Recology Sunset Scavenger ("RSS"), and Recology Golden Gate ("RGG") for fiscal years 2007 through September 30, 2012.

Consistent with the 2006 Rate Order, the Companies have followed a "combined approach" that aggregates the revenues and expenses of the two collection companies for purposes of calculating the proposed rate increase. Staff continues to support this approach. The Companies calculate rates based on a 91% operating ratio (an allowed 9.9% profit), with an additional 2% operating ratio available for achieving zero waste goals. It should be noted, however, that the Application contains a number of "pass-through" items upon which the Companies are not allowed to calculate any profit, so their effective profit margin is lower. Staff considers the proposed operating ratio reasonable and consistent with rates allowed in other jurisdictions (Exh. 66).

The Companies are requesting an average increase in residential collection rates of 21.51%, and an increase in the transfer station tip fee of 6.45% (from \$140.76 to \$149.84 per ton). The Companies propose significant changes in the residential rate structure. Currently, residential charges are based solely on the volume of trash (black bin) service, although service includes collection and processing of recyclable (blue bin) and compostable (green bin) materials. The Companies propose to add a fixed monthly charge of \$5 per residential unit, as well as a monthly charge of \$2 for each 32-gallon blue and green bin (larger bins would be charged for each multiple of 32-gallon capacity); the charge for the black bin would continue to be volume-based. According to the Companies, a typical household, with three 32-gallon bins, would see a monthly increase of \$6.60, from \$27.91 to \$34.51 per month (Exh. 1, Letter, p. 2).

The Companies also propose changes in the way apartment customers' service charges are computed, similar to the discounted-volumetric structure currently employed in the commercial sector. Under the proposal, apartment customers would be charged for each type of service (trash, recyclables, and compostables) based on volume; these charges would then be discounted based on the amount of diversion service (i.e., blue and green bin volume) that is provided. Apartment customers would also be charged a fixed monthly fee of \$5 per unit. The Companies propose a cap on apartment rates; for the first year no apartment bill for equivalent service would increase more than 25%. For the second year the cap would rise to 50%. There is no cap in the third year.

The Companies claim that the proposed structure is a step toward aligning the rates charged with the cost components of residential and apartment services. The new structure is also designed to mitigate against the impact of declining trash volumes on total revenues, as the City moves towards its goal of zero waste.

Unlike prior rate applications (in 2001 and 2006), the Companies are proposing a single-year rate for the rate year beginning July 1, 2013 (rate year 2014 (RY14)). The Companies propose that the base year rates be adjusted by a cost-of-living factor in future rate years, until a new application is submitted. The Companies anticipate submitting a new rate application within two to three years, depending on a number of factors. Future ratemaking procedures are discussed later in this report.

### **3. Procedures**

The burden of proof is on the Companies to demonstrate, through evidence on the record, that the rate increase they seek is "just and reasonable." Pursuant to the 1932 Ordinance, DPW Order No. 181,252 ("Rules of Procedure"), and DPW Order No. 173,617 ("Rate Adjustment Standardized Format"), in response to the filing of the Application, the Director has begun a series of workshops and public hearings. An informational workshop was held on the draft application on January 17, 2013, and a technical workshop was held on the final Application on March 21, 2013. Both workshops were publicized through press releases, notifications to neighborhood groups and various apartment associations, along with postings on DPW's web site and the Ratepayer Advocate's web site. The Director held public hearings on April 12, 15, 22, and 24, 2013. These hearings were advertised in the San Francisco Chronicle and notice was posted at the San Francisco Main Library Government Information Center and on the DPW website. The hearings were transcribed.

At these hearings, the Companies and City staff were given the opportunity to present testimony and cross-examine witnesses. The independent Ratepayer Advocate also conducted cross-examination, and public comment was taken at each hearing. The hearing record consists of the documents filed by the Companies, staff, the Ratepayer Advocate, and the public in support of their positions in marked exhibits, as well as the hearing transcripts. Exhibits are referred to by number in this report. Attachment A contains the list of exhibits that have been entered into the record as of the date of this report.

### **4. Staff Review**

Staff from the Department of Public Works (DPW) and the Department of the Environment (SFE), who have considerable expertise in municipal solid waste management, recycling, and planning, with assistance from the City Attorney's office and outside advisors and consultants, conducted a thorough review of the Application, beginning with the draft (or initial) Application submitted by the Companies on December 11, 2012. During the 90-day review period for the draft Application, staff examined every schedule and line item of the rate model, as well as the documentation and justification for the requested increase. Upon request, the Companies provided additional documentation and clarification in response to numerous rounds of staff and consultant questions. Staff tested the model to validate that computations were correct, double-counting was eliminated, and that the calculations were accurate.

City consultants with specialized financial expertise reviewed the rate model and projection methodology used by the Companies to derive the base year for the rate application (RY14) from audited financial results for the Companies' most recently completed fiscal year (June 30, 2012). The consultants identified the various adjustments and inflation factors applied by the Companies, and determined their reasonableness.

Both staff and consultants reviewed historical revenues, expenditures, and tons to determine trends and identify potential anomalies. Those findings were then used to validate or adjust projections. Staff also compared elements of the Application to information that SFE has collected through years of working on waste-related issues and to information obtained from outside sources, including other jurisdictions, to evaluate the Companies' Application.

Based on the initial review, staff made a determination of completeness of the draft Application, and requested that the Companies revise and/or provide additional information in the final (or revised) Application. The Companies' final Application, submitted March 14, 2013, reflected staff findings as well as several corrections of their own; changes between the draft and final Application were summarized in a table (Exhibit 53). Taken together, the Companies revised their request as follows:

Item	Draft Application	Final Application
RSF rate increase (%)	13.26%	6.45%
RSF tip fee (\$/ton)	\$159.43	\$149.84
RSS/RGG average rate increase (%)	23.75%	21.51%

Staff and consultants continued to review the final Application, including validating that the changes requested in the draft Application were made, and testing other assumptions used by the Companies, particularly with respect to tons of materials handled and revenue projections. During the public workshop and the four Director's hearings, staff questioned the Companies extensively on their methodology and assumptions, presented additional information, and considered the comments of the Ratepayer Advocate and members of the public. Collectively, that process and information has informed the staff's recommended adjustments, which are summarized in the next section and detailed in subsequent sections of this report.

## 5. Summary of Staff Recommendations

After extensive review, staff is proposing a number of changes in the Companies' rate schedules that affect both the tip fee charged by Recology San Francisco and the collection charges levied by Recology Sunset Scavenger and Recology Golden Gate.

For Recology San Francisco (the operator of the transfer station complex and the recycling facility), the most significant changes are as follows:

Staff Recommended Changes for RSF	Value of Change
Remove Brisbane tax from operating ratio calculation	\$259,350
Reduce staffing at recycling facility (2 sorter/materials handlers)	\$137,574
Reduce compostables tip fee	\$568,060
Adjust lease terms from 7 to 10 years for stationary equipment	\$237,279

These reductions also result in lower diversion incentives, profit, labor costs, payroll taxes, workers' compensation and other labor-related expenses. The total reduction at Recology San Francisco is \$1,476,245; these changes reduce the proposed tip fee from \$149.84 to \$147.23 (an increase of 4.60% over the current rate). The lower tip fee flows through to the collection companies, as summarized below.

For Recology Sunset Scavenger and Recology Golden Gate, the most significant changes are as follows:

<b>Staff Recommended Changes for RSS/RGG</b>	<b>Value of Change</b>
Intercompany disposal (lower tip fee)	\$441,972
Intercompany processing (lower tip fee)	\$900,083
Reduce shops and clerical staffing (2 positions)	\$135,687
Lower price for CNG fuel	\$733,743
Reduce Pay Per Setout test (revenue and expense adjustments)	\$333,441
Lower apartment migration assumption (increases revenues)	\$548,701
Increase projected apartment revenues for new units (increases revenues)	\$1,272,797

In total, staff recommends a reduction of \$2,879,561 in expenses for RSS/RGG, and an increase of \$1,961,159 in revenues used to calculate the required rate adjustment. The cumulative changes recommended by staff reduce the average residential rate increase to 19.14%. For a typical residential household with three 32-gallon bins, the monthly rate would be \$33.87.

In addition to these changes, staff recommends retaining the caps on apartment customers at 25% in RY14 and 50% in RY15, to mitigate unintended rate shock and allow time for them to reconfigure their services, to the extent possible. Staff is proposing returning to the rate base some revenue realized from lifting these caps. Staff is also proposing modest changes to the cost-of-living-adjustment mechanism that would be applied in future rate years, and to the zero waste incentives calculation, as described later in this report.

Attachment B provides a more detailed list of the changes being proposed by staff, along with the resulting rate calculation schedules for the Companies (Schedules B.1 for RSF and RSS/RGG).

## **6. Residential and Apartment Rates**

This section describes proposed changes in residential and apartment rates.

### **6.1 Residential Rate Structure**

The Companies propose to institute a fixed \$5 charge per residential unit and \$2 charge per 32-gallon bin for recycling and composting collection (Exh. 1, Letter, p. 2, Narrative Summary, p. 10, RSS/RGG Sch. C, p. 3). Staff agrees that the current rate structure, based on applying total costs only to shrinking black bin trash, is not sustainable. We recognize there are fixed costs not dependent on the volume of refuse collected from a household and agree that, especially with the adoption of San Francisco's Mandatory Recycling and Composting Ordinance in 2009, households will still be incentivized sufficiently under the proposed rate structure to recycle and compost. Staff therefore supports the proposed residential rate structure.

### **6.2 Twenty-gallon Rate**

The Companies propose charging residential 20-gallon trash customers 20/32 (62.5%) of the 32-gallon rate, rather than the previously established 77%, making all volumetric charges proportional (Exh. 1, Narrative Summary, p. 10, RSS/RGG Sch. C, p. 3). Staff has long supported this ratio and agrees that now is a good time to institute it. Thirty-two-gallon trash customers can more than offset the proposed rate increase by shifting to a 20-gallon trash bin (Exh. 7).

### **6.3 Apartment Rate Structure**

The Companies propose changing the apartment rate structure to a discounted-volumetric charge patterned on the current commercial rate structure. For apartment customers, it would include a \$5 per dwelling unit fixed charge and a capacity charge for all three bin types (black, green and blue) with a diversion discount, up to 75%, equal to diversion volume percentage minus 10% (Exh. 1, Letter, pp. 2-3, Narrative Summary, p. 11, RSS/RGG Sch. C, pp. 3-4).

Staff concurs that the current apartment rate structure of applying volumetric rates only to black trash bins is not sustainable as the City get closer to zero waste to landfill. Apartment buildings have also increased their use of green and blue bins, especially since the adoption of San Francisco's Mandatory Recycling and Composting Ordinance, with a corresponding reduction in the use of black bins. The base on which revenues are generated must be expanded beyond the black bin trash stream while maintaining incentives for diversion.

The similar commercial rate structure instituted in conjunction with the 2006 rate process helped motivate business customers toward more diversion services and is now successfully institutionalized in that sector. Staff believes a discounted-volumetric rate will function in a similar fashion in the apartment sector, continuing to incentivize apartment customers to increase diversion while allocating program costs more sustainably.

### **6.4 Pay Per Setout**

The Companies included costs and revenue credits in the application for a Pay Per Setout test. The test gives curbside customers the opportunity to put their black trash bin out only when necessary and receive a discount for each week they do not have the black bin collected (Exh. 39). Staff agrees with the concept and goals of this program. Developing and evaluating new collection, routing, tracking and billing systems are critical as San Francisco moves towards zero waste.

The Companies propose to add three test groups in RY14 to the existing RY13 group. Staff believes two new groups in RY14 is sufficient for testing purposes and recommends eliminating one group and its related costs and revenue credits.

The Companies propose to amortize rollout costs over 3 years (Exh. 39). But these are one-time costs associated with an ongoing rate and carts leased over a 7 year term (Exh. 1, RSS/RGG Sch. H.2, p. 1). Thus staff recommends rollout costs be amortized over 7 years.

## **7. Revenues**

The Companies attribute fully 16.1% of the 21.5% proposed rate increase (or 75% of their request) to a revenue shortfall due to a combination of migration to diversion service and the economic downturn (Exh. 1, p.23). To date, charges in the residential and apartment sectors have only been levied on trash, or black bin, service. Collection and processing of the other two material streams--recyclables and compostables--requires an equivalent level of effort, and therefore expenditure. As customers have been shifting away from larger trash containers, or to less frequent collection, in an effort to save money and to comply with the Mandatory Recycling and Composting Ordinance, revenues collected by the Companies have gone down. Likewise, in the commercial sector, where there is a diversion discount, customers have been shifting away from the non-discounted trash service.

Staff concurs that the base on which revenues are generated is shrinking while overall programs and services for collecting the three waste streams, as measured by tons disposed and processed and collection

routes required, are staying essentially flat. Staff wants to emphasize to all interested parties and the public that a revenue shortfall, caused in large measure by changes in the economy and behavior encouraged by adopted City policies, more than any cost increases, is driving the requested increase in refuse collection rates. Staff also notes that other jurisdictions throughout California are grappling with the issue of a shrinking rate base (i.e., trash volume) and are considering changes in refuse rate structures similar to those being proposed by the Companies.

RSS/RGG Schedule F.1 shows that revenues were lower in RY12 than they had been in RY11 in all three sectors (residential, apartment and commercial). Exhibit 48 submitted by the Companies shows this downward trend has generally continued through the first nine months of RY13. This is despite the fact that most economic indicators (population growth, employment, office vacancies, hotel occupancy) are improving (Exh. 49). As a result of all of the construction activity, staff expects a large number of new residential units to be occupied in RY14 and is recommending an adjustment to apartment revenues as discussed below.

### **7.1 Apartment Revenue Projections**

The San Francisco Controller's Office Development Pipeline February 2013 (DP-2/13) Residential Summary (Exh. 67) shows 11 apartment buildings projected for completion in RY13. These buildings will include a total of 2,847 new residential units. Staff research indicates these buildings will be occupied in RY14.

These new apartment units represent 2.5% of the 113,929 existing units in the Apartment Detail screenshot the Companies provided during analysis of the draft application (Exh. 68). Multiplying Apartment Annual Revenue of \$50,911,892 (Exh. 1, RSS/RGG Sch. F.1) times 2.5% yields a revenue increase of \$1,272,797.

### **7.2 Apartment Migration**

The application includes Apartment – Migration, -2.5% Base Revenue Lost due to Service Changes (Exh. 1, RSS/RGG Sch. B.3, p.3). The Companies have not provided sufficient evidence to support this projection.

Available evidence indicates that the Companies have over-stated projected apartment migration. SFE and the Companies have initiated composting collection, supported by outreach and education programs, at over 2,000 apartment buildings in the past two years. Out of the 8,617 apartment buildings in San Francisco, fewer than 200 buildings do not have composting collection and they will start it before RY13 ends. Service changes associated with starting composting have been substantial and are essentially complete.

Staff does not believe the new apartment rate structure and overall rate increase will have as much impact on revenue as rolling out composting to apartments has already had. Exhibit 1, RSS/RGG Sch. F.1, shows an apartment revenue average annual increase of 3.6% from RY7 to RY13 and an average annual decrease of 1.4 % from RY11 to RY13. Staff therefore recommends RY14 apartment revenue migration of no more than 1.4%. This change would produce a reduction of \$566,521 from \$1,287,547 Apartment - Migration in Exhibit 1, RSS/RGG Sch. B.1-3.



### **7.3 Apartment Rate Caps**

The new apartment rate structure, combined with the overall increase, results in rate increases of over 25% to approximately 73% of apartment buildings (Exh. 54). To mitigate rate increases and allow time for apartment owners to understand the new rate structure and right size their service levels, the Companies have proposed capping apartment rate increases for individual apartment customers at 25% in RY14 and 50% in RY15. The Companies state that the changes to service levels and configuration will offset any additional revenue generated by the removal of caps (Exh. 1, Letter, p. 3, Narrative Summary, pp. 11-12, RSS/RGG Sch. C, pp. 3-4). It is very difficult to project the amount of right sizing that will be accomplished. But staff does not believe that all revenue from removal of the caps will be offset by service adjustments.

The Companies presented an exhibit showing that a total of \$4,571,055 in revenue could be realized when the caps are removed, if there is no migration (Exh. 54). To mitigate such a revenue windfall, staff recommends \$2,285,527, one-half of the total potential excess revenue, be returned to the rate base in the annual COLA adjustment process. This will mean that all classes of ratepayers will benefit from removal of the caps on apartment rates and apartment customers will continue to be incentivized to right size their service.

### **7.4 Recycling Revenue and Purchases**

In the draft application (RSF Sch. F.3), staff observed that projected prices per ton for recyclable commodities in RY14 did not exactly match up with the average of the actual prices received in the five most recent Recology annual reports (RY8-12). In the final application, the prices were adjusted to accurately reflect the five-year average, resulting in a \$1,116,907 increase in projected recycling revenue for RY14.

Staff also discovered that processing expenses were double-counted in the draft application by putting them in both RSF Schedules D and F.3, p. 2, including \$1,038,625 in RY14. Staff verified that these expenses were properly apportioned between the two schedules in the final application.

In the draft application (RSF Sch. K.2), staff questioned the Companies as to why three commodities were purchased at higher prices than sold. For HDPE and Whole Bottle Glass it was determined that the purchased items were more valuable California Redemption Value (CRV) containers only, whereas the materials sold were a mixture of CRV and non-CRV containers. For Mixed Paper, the purchased products were a higher quality commercial grade of Mixed Paper. At the April 24 hearing, Mr. Braslaw also confirmed that in the final application (Exh. 1, RSF Sch. K.2) the RY12 Mixed Paper purchase price should be corrected from \$234 to \$113 and Cardboard from \$144 to \$145, resulting in purchases of \$28,217 and \$3,564,578 respectively (Tr. p. 580). These changes will not result in any change to the rates.

## **8. Program Expenses**

This section presents staff findings and recommendations with respect to the Companies' program expenses.

### **8.1 Collection Companies Labor**

The Companies propose to add 1.7 General & Administrative Regular Payroll - FTE Union - Clerical in RY14 (Exh. 1, RSS/RGG Sch. G.1, p.10). At the April 22 hearing, Mr. Braslaw confirmed (Tr. pp. 319-320) that Total General & Administrative staff had increased in RY13 by 3.3 FTE and 2.5 more were

projected to be added in RY14, and further that 1.0 of those RY14 FTEs had already been hired. Mr. Braslaw explained that those positions included customer service representatives (CSRs) dealing with calls about service and rate changes, including Pay Per Setout (PPS).

At the April 22 hearing during public comment (Tr. p. 425), a member of the public noted the prior consolidation of CSRs to one call center as a means of increasing efficiency and productivity. The Companies did not indicate any specific staff reductions or increases in workload, and no information was presented to show that current staffing was not maintaining customer service quality. Staff recommends reducing PPS by one third, which will also reduce CSR workload. This recommendation translates into a reduction of one FTE from General & Administrative Regular Payroll Union-Clerical in RY14, from 24 to 23.

Exhibit 1, RSS/RGG Sch. G.1, p.11, shows an increase of 4.6 FTE in the Truck & Garage Regular Payroll Union - Shop in RY13 and 1.9 FTE in RY14. The Companies confirmed at the April 22 hearing that the 4.6 FTE had been hired to address preventive maintenance generally and increased maintenance that is required for the new CNG vehicles (Tr. pp. 315-317). The average number of FTEs has been 45.7 over RY10-12. The 51.3 FTE proposed for RY14 is a 12% increase over the RY10-12 average. Exhibit 1, RSF Sch. E., pp. 1-3, shows collection tonnage is relatively flat and the Companies agreed with that observation at the April 22 hearing (Tr. p. 313). Staff recommends Truck & Garage Regular Payroll Union - Shop be reduced by one FTE in RY14, from 51.3 to 50.3.

## **8.2 Recyclables Processing Labor**

In the draft application (RSF Sch. G.1, pp. 8-9), the Companies increased the number of Recycle Central Total Payroll Sorter/Material Handlers from 85.9 in RY12 to 90 in RY14 and Regular Payroll FTE from 63.5 to 67.5, even though recyclables tons are not increasing.

In the final application (Exh. 1, RSF Sch. G.1, p. 8), the Companies reduced the number of Total Payroll Sorter/Material Handlers to 88 in RY14, but there is no corresponding reduction in Regular Payroll FTE. At the April 22 hearing, Mr. Crosetti agreed with staff that Regular Payroll FTE Sorter/Material Handlers should be reduced from 67.5 to 65.5 in RY14 (Tr. pp. 321-322). Staff recommends a corresponding reduction in labor costs.

## **8.3 Health and Welfare Benefits**

Health insurance costs include medical, prescription, drug, dental and vision coverage, as well as long-term disability and life insurance. The projections in the Application for the base health insurance costs are based on RY13 costs inflated by 6.6% for the second half of the year (health insurance rates are set on a calendar year basis and adjusted for rate years). RY14 health insurance costs assume a 6.2% increase from the RY13 projections. The 6.6% and 6.2% inflation factors were developed by the Companies' third party actuary, Mercer. In addition to the base health insurance cost, this expense also includes a reinsurance fee associated with the Affordable Care Act set at \$110 per covered life; a Retirement Security Program which provides postretirement benefits; and a Supplemental Retirement Security Program. The Companies report this last benefit, with an associated cost approximately \$300,000, was provided in exchange for the elimination of the Rule of 84 benefit program which provided a savings of \$3.7 million.

Overall health insurance costs for the combined Companies for RY14 are projected to increase by 24% as compared to RY12 (9.1% in RY13 and 13.6% in RY14). As with other employee benefits, a portion of this increase is due to projected increase in staffing positions as well as the impact of the reinsurance fees and supplemental retirement security program; however, the Companies' RY14 projected health

insurance expense is 30.3% of payroll, which is more than both the 3-year and 5-year averages (29.0% and 28.3%, respectively).

The Companies' health insurance costs are rising faster than any other major expense and staff is extremely concerned about this trend. The Companies reported that they have implemented changes to the non-union health and benefits in an effort to control costs, including increased co-payments and benefit reductions. Union programs are governed by contractual obligations and program changes are limited under the current collective bargaining agreements. When those agreements are renegotiated, however, it is staff's expectation that the Companies will aggressively pursue changes to union health and benefits in an effort to control those costs, including increased co-payments and benefit reductions similar to the steps taken to control non-union costs at the Companies and those taken by the City for its own employees. It is also staff's expectation that its review of any future applications will consider the reasonableness of overall negotiated benefits and co-pays when determining what portion of those expenses are appropriate to include in the rate base. In future rate reviews staff may also consider recommending excluding health care cost increases that are above a reasonable amount from the operating ratio.

Staff recommends reducing the reinsurance fee required by the Affordable Car Act from \$110 to \$63 in RY14, consistent with guidelines issued by the Department of Health and Human Services (Exh. 69). Total reduction is \$175,075.

#### **8.4 Liability Insurance**

Liability insurance premium projections are based on information provided by the Companies' insurance brokers and actuaries along with projected claims costs associated with fleet operations. Claim costs are allocated to the individual companies based on their individual claims experience. Other costs are allocated based on a series of measures developed to reflect each participating company's relative size and risk profile. The Companies combined liability insurance expense is projected to increase an average of 8.8% between RY12 and RY14. This projected increase in liability insurance is due in large part to the Company's loss rate, which is projected to increase annually at 10% based on an average of the 4-year and 6-year trends developed by the Company's actuary. The Company's actuary, who works with more than 250 self-insurance programs, reported that the Company's loss trend and projected increase in liability insurance are consistent with what they are seeing throughout the broader business sector. The RY14 projected expense for the Companies is 4.3% of the payroll expense, which is less than both the 3-year and 5-year averages (4.4% and 5.7%, respectively).

Recology's safety manager, who joined the Company two years ago, reported that the Company is in the process of reorganizing its safety program in an effort to control costs, including liability insurance. Staff does not recommend adjustments to this line item.

#### **8.5 Workers Compensation**

Workers compensation expense covers the cost associated with workers injured on the job. The Companies participate in a risk pool with all other Recology operating companies with compensation rates and allocations established based on the specific historical experience of each Company as prepared by Recology's third-party administrator.

The Companies reported that workers compensation costs have risen over the past several years due to increases in the indemnity payments and double digit inflation increases in the costs of medical care. Changes in legislation that led to decreases in some areas of workers compensation costs have been undercut by increases in benefits attributed to recent court decisions and more liberal rulings regarding disputes and appeals. Although they are continuing to focus on safety training, return-to-work programs,

and improvement of work processes, the Companies reported that workers compensation costs remain high and are expected to increase during the rate period.

Overall workers compensation costs for the combined companies are projected to increase by 12.1% in RY13 and 7.2% in RY14 based on actuarial projections and broker estimates. The combined projected RY14 workers compensation expense for the Companies is 8.9% of payroll. This figure is generally consistent with historical trends, with the workers compensation expense for the combined companies averaging 8.9% of payroll for RY7 through RY12, although slightly higher than the 3-year and 5-year trends, which are both 8.8% of payroll.

Staff is concerned about increasing workers compensation costs and seeks assurances from the Companies that their safety programs are effective and that the Companies are doing everything in their power to minimize accidents and injuries and associated workers compensation costs. DPW has been able to reduce its Loss Workday Case Rate from 10 to 1 by simply implementing a return-to-work policy and has also reduced its total Recordable Injury Rate from 18 to 8. Staff understands that the Companies hired a new Safety Director two years ago and are in the process of implementing a number of changes to its safety program. DPW safety personnel have expressed a strong desire to collaborate with the Companies to determine if there are opportunities for the Companies to undertake some of the actions the DPW has taken to improve their safety record and reduce Workers Compensation costs. We strongly encourage the Companies to undertake such a collaborative effort.

### **8.6 Pension Contributions**

Pension costs are based on contributions required to meet Employee Retirement Income Security Act (ESIRA) pension plan funding requirements as determined by the Companies' pension plan actuary. The Companies' pension contributions, through their parent company, Recology, Inc., have increased during the past few years in an effort to improve the funding status and financial health of the Recology-sponsored pension plan. The Companies share of the contribution in RY12 was \$20 million, up from an average of \$10.9 million during the last five-year rate period. The Companies combined RY14 pension expense is projected to be approximately \$18 million, a decrease of more than 18% as compared to the RY12 actual expense (approximately \$28 million), but an increase of approximately \$4 million as compared to the RY11 actual expense. As projected, the RY14 pension expense represents 18.2% of payroll, which is less than both the 3-year and 5-year averages, which are 21.9% and 20.5%, respectively.

Pension benefits for RSF employees represented by Operating Engineers Local 3 are provided under a separate union sponsored plan. The plan is funded as a cost per hour for each participating employee. The Application projected that hourly cost to increase 13% in RY13 and another 6.6% in RY14 based on information provided by the union. A review of the executed union agreement, however, supported a RY14 pension funding rate of \$10.11 per hour versus the Company's \$10.35 per hour.

Recology has frozen its pension plan with respect to new non-union personnel, who now participate in a defined contribution plan that is not subject to fluctuating funding requirements. Union pension obligations are governed by contractual obligations and program changes are limited under the current collective bargaining agreements. When those agreements are renegotiated, however, it is staff's expectation that the Company will aggressively pursue changes to the union pension plan in an effort to control those costs as the City has done with its own employee pension plan over recent years. The City's efforts to control pension liabilities and annual employer contributions to the pension plan have included requiring employee contributions to the pension plan (between 7.5% and 11.5% of salary is deducted from bi-weekly paychecks), increasing the age at which full benefits can be realized to 65, and basing retirement compensation on 75% of the average of the final three years salary. The Companies may also consider freezing the union pension plan, and implementing a defined contribution plan similar to that implemented for new non-union personnel. It is also staff's expectation that its review of any future

applications will consider the reasonableness of overall negotiated pension benefits when determining what portion of those expenses are appropriate to include in the rate base.

Staff recommends reducing the Local 3 funding rate from \$10.35 to \$10.11 per hour, based on a review of the applicable union agreement. Total reduction is \$21,783.

### **8.7 Toxics Programs**

Currently, the Companies provide San Francisco residents with safe and convenient disposal options for home generated sharps through 66 pharmacy locations throughout the City. In the past year, the City launched a Safe Medicine Disposal pilot program for residents and has been collecting unwanted and expired medicine at 13 pharmacies and one community center that do not collect sharps. Over the course of the year, staff has received requests from residents as well as a majority of the pharmacies participating in the safe medicine disposal program to allow residents to safely dispose of their home generated sharps at the same locations. The Companies included modest costs in their application to expand the safe needle disposal program to 10 of these sites (RSF Sch. C, p.4). Staff believes that expanding the safe needle disposal program to include 10 additional sites will meet the needs of the residents and make the program more convenient, and therefore supports this addition.

Through the Household Hazardous Waste Facility drop off program, the Door-to-Door HHW collection program and the Curbside and Apartment battery recycling programs, the Companies collect primary (alkaline) and secondary (rechargeable) household batteries. Currently, the Companies co-mingle these batteries and ship them offsite for recycling. The secondary battery industry voluntarily created a non-profit entity, Call 2 Recycle, which operates a free rechargeable battery and cell phone collection and recycling program in North America. Call 2 Recycle has offered to reimburse the City for costs incurred to manage secondary batteries collected by the Companies. However, the Companies will first need to sort the primary and secondary batteries in order to seek reimbursement from Call 2 Recycle. In addition, product stewardship-based legislation is being considered at the State level for primary batteries. If passed, the legislation would likely result in reimbursement for management of primary batteries collected by the City which would also require the Companies to sort primary and secondary batteries. In order to obtain these manufacturer reimbursements and reduce costs to ratepayers for managing batteries, the City supports the addition of one Union - technician FTE position (RSF Sch. G.1, p.11) to complete the sorting of batteries.

### **8.8 Abandoned Materials Collection**

The Application includes a provision for Recology to assume responsibility for responding to 311 calls for abandoned materials. Under the proposal, Recology would divide the City into five zones and utilize two trucks per zone, one packer and one box truck (DPW currently uses only a packer truck on each route). By operating the program in a similar manner to the existing Bulky Item Recycling program (with box trucks for mattresses, electronics, appliances, and other potentially recoverable items), the Companies anticipate generating greater diversion of materials than DPW can achieve with a single packer truck on each route. Assigning two trucks per zone potentially allows for higher service levels, as the trucks can operate independently depending on the materials to be collected (Tr. p.299). Drivers will also be instructed to collect any abandoned materials along their routes, even if it is not in response to a 311 call. Recology has set a goal of responding to service calls within four hours on weekdays and within eight hours on weekends.

Staff concur that the Companies are better positioned to deliver more effective collection of abandoned materials, and find the incremental costs for staffing, vehicles and supplies reasonable. Staff recommend that DPW and the Companies agree upon a mechanism using 311 call center data for tracking the Companies' actual response time, service levels, and amount of materials collected to evaluate the

effectiveness of the program. Staff also encourages the Companies to continue to evaluate alternative program configurations that could increase service levels in each zone or reduce response time within the same level of resources, including development of strategies to move more materials into the Bulky Item Recycling program.

Staff also recommends establishing incentives to ensure that the Companies meet their response time goals. DPW staff proposes that beginning in RY16, the following offset would be applied to the cost-of-living adjustment if the Companies fail to meet the response time goals:

<b>Percent of calls meeting response time standard</b>	<b>Offset</b>
> 90%	None
> 85% ≤ 90%	\$150,000
> 80% ≤ 85%	\$200,000
≥ 75% ≤ 80%	\$250,000
< 75%	\$300,000

The maximum potential offset (\$300,000) is equal to 10% of the Companies' estimated cost for collection of abandoned materials, less the disposal charge and operating ratio (Exh. 41). Response time performance will be collected through the City's 311 call center and database. The Companies would forfeit the maximum offset if they fail to meet the response time goals for fewer than 75% of the 311 calls in the preceding year. The Companies' response time for the one-year period beginning April 1, 2014, would be used to determine the offset (if any) applied to the RY16 rates.

### **8.9 Public Litter Cans**

Staff questioned the RY14 "City Cans Allocation" in RSF Sch. E, p. 3, of both the draft and final applications. The tons were reduced from 28,752 in the draft to 21,008 in the final. At the request of staff, the Companies conducted an audit and found the total number of public litter cans to be 3,222. As a result, at the April 24 hearing, Mr. Quillen stated that the Public Litter Can allocation should be reduced to 20,517 tons in RY13 and 19,365 tons in RY14, and Fantastic 3 Trash increased correspondingly to 158,980 tons in RY14 (Tr. p. 581). These changes result in a slight decrease in the tip fee due to the increase in the projected tons which will receive revenue.

### **8.10 Composting Tip Fee**

Exhibit 1, RSF Sch. C, p. 8, states that the processing fees for compostables are based on tipping fees charged by the compost facilities used by RSF, including Recology Grover and Jepsen Prairie Organics (Recology Organics Facilities), and that these fees are set at market rates. Exhibit 1, RSF Sch. J.1, shows the Transfer Station Compostables tipping rate of \$48.64 per ton.

The Companies provided a study (Exh. 45) of available food scraps composting facility sites in the Bay Area, their capacity and tipping fees, to support this rate. The sources cited for the food scrap tipping fees shown in the study are "personal communication," except for one rate based on a proposal submitted in 2008. This study does not show any rates for the Recology Organics Facilities, or for other facilities stating that those rates would be "negotiated on a case-by-case basis." Staff does not consider this study to demonstrate that the proposed compostables rate per ton is a market rate.

The Companies then provided, as requested by staff, rates per ton that Recology Organics Facilities charge customers based on the percentages of food scraps (Exh. 57). "Customers with a large percentage

of food waste” are charged \$45.00 to \$50.20 per ton, which is the highest cost range for all types of customers and includes “San Francisco plus 6 other customers” for a total of 189,000 tons per year. San Francisco represents 156,060 tons per year of compostables to be charged \$48.64 per ton (RSF Sch. J.1) or 83% of this customer category tonnage.

Staff agrees that compostables with a “large percentage of food waste” require more processing and therefore produce greater costs, than material with a “small to modest percentage of food waste.” However, staff does not believe that there is an overall diseconomy of scale, as described by Mr. Yamamoto at the April 24 hearing (Tr. pp. 516-522), for processing the much greater quantities of material from the Companies than from other customers in the same category of “large percentage of food waste.” The Companies have not provided a detailed explanation of their diseconomy of scale premise or documentation to support it. Much of the infrastructure and operations used or needed by the Recology Organics Facilities has a large fixed cost component that does not continually increase with processing growing quantities of similar material. Staff believes there are cost efficiencies that can be gained in processing larger quantities. Lowering fixed costs per ton for processing increasing quantities of similar material is standard in composting and related industries.

Therefore, staff recommends that San Francisco, being the largest Recology Organics Facilities customer and representing 83% of the “customers with a large percentage of food waste,” receive the most competitive rate in that customer category of \$45 per ton. This reduction would reduce the processing expense for compostables in RSF Schedule J.1 by \$568,081, from \$7,590,781 to \$7,022,700.

Staff accepts that the compost prices in Exhibit 61 are for the landscaping market and not the agricultural market where the large majority of food scraps based compost is sold at lower prices (Tr. pp.503-504). Staff accepts that revenues from the sale of finished compost products are about 10% of total composting facility revenues and thereby, only offset a small portion, such as 10%, of total composting facility expenses (Tr. p. 347). Staff accepts that the composting tip fees incorporate, on an annual basis, compost product sales revenue, which helps keep fees lower and more competitive while also reflecting the marketplace (Tr. p. 349).

### **8.11 Trash Processing**

Staff estimates that on average half of the materials in the residential and commercial trash bins are compostable or recyclable. Staff believes that to continue making progress toward zero waste it is crucial that the Companies continue their testing and experience with processing trash to recover compostable and recyclable material, while also increasing landfill diversion with these efforts. Staff is encouraged by the progress the Companies have made in testing low temperature mechanical/biological processing technologies to separate compostable (or digestible) materials from trash and the resulting benefits of anaerobic digestion of this material by the East Bay Municipal Utility District (EBMUD) to produce a truly renewable source of energy. Staff has evaluated the Companies’ proposed trash processing as described in Exhibit 1, Narrative Summary, p.7, and RSF Schedule C, p. 3. Staff finds the costs of the proposed trash processing equipment (RSF Sch. H.2), staffing (RSF Sch. G.1, part of Transfer Station) and outside processing for recovered compostables (RSF K.1) to be reasonable. Staff supports this project as a critical next step toward developing a future integrated zero waste facility.

### **8.12 Leases**

Staff asked the Companies to change the lease terms for all stationary equipment (Exh. 1, RSF Sch. H.2) from 7 to 10 years to match the assumptions in Exhibit 1, RSF Schedule C, p. 10. Mr. Braslaw confirmed at the April 24 hearing (Tr. pp. 578-580) that the Companies agree to change these lease terms. Staff recommends this change be made in RSF Schedule H.2 for the operating equipment on lines 28

(Automate ph neutralization for Compostables Annex run-off) through 33, 35-36, 38-39 and 44-46. Staff calculates that these changes reduce total operating equipment expenses by \$237,700, from \$1,408,455 to \$1,170,755.

DPW's certified public accountant, an independent auditor engaged by the City, analyzed equipment lease costs for reasonableness (Exh. 70). The consultant found that lease rates charged by Recology's leasing subsidiary, an affiliated company, were at market interest rates. The consultant also found that monthly lease payments were appropriate and recommended no further adjustments to lease expenses.

### **8.13 CNG Vehicles Fuel and Facility Upgrade**

The Companies propose continuing to replace existing biodiesel collection vehicles with compressed natural gas (CNG) vehicles. Exhibit 1, RSS/RGG Schedule L.3, indicates that the Companies purchased 40 CNG collection vehicles in RY12 and intend to purchase 28 more in RY13. The Companies have not sufficiently demonstrated that they have actually made any of the purchases.

The California Energy Commission's (CEC) Program Opportunity Notice 11-603 offers a rebate of up to \$32,000 per CNG vehicle. The program started in February 2012 and is scheduled to run until April 2014. The Companies have not documented how many rebates, if any, they have received under this program. Staff recommends the Companies document any CEC funds received or secured for trucks to be purchased in RY13 and their efforts to access CEC funds for trucks to be purchased in RY14.

CNG fuel use by the Companies has risen from RY12 and RY13. The Companies have fueled their CNG collection trucks at nearby commercial stations during RY12 and 13, paying rates of \$2.27-2.32/gallon. In March 2013, RSS began operating a CNG fueling station in its yard. It is a temporary fixed system taking natural gas directly from PG&E through the existing gas line on site.

This gas, already partially compressed, is purchased at \$.74 per gasoline gallon equivalent (GGE) (Exh. 71 PG&E Gas Schedule G-NGV1). The system converts PG&E pipeline gas to vehicle fuel using a compressor rented from Clean Energy for \$11,000/month. The cost of electricity used to run the compressor adds \$.03/ GGE. The effective price for fuel delivered in this way is then \$1.01/GGE. Staff recommends reducing RY14 CNG/Natural Gas price per gallon from \$2.37 to \$1.01 to reflect the shift to the new fueling system and reducing total CNG expense from \$1,278,602 to \$544,869 in Exhibit 1, RSS/RGG Schedule L.3.

Exhibit 1, RSS/RGG Schedule H.3 shows RY13 Facility Upgrade-Maintaining/Serviceing CNG Powered Equipment costs of \$778,817. This amount is for facility upgrades at both RGG and RSS to service specific aspects of CNG vehicles indoors. Staff understands that neither upgrade has been completed yet. Staff recommends that the improvements at RSS be completed in RY13. The Companies are fueling the CNG vehicles at RSS and should perform this specific maintenance there as well. The improvements at RGG, however, should be delayed until a larger portion of its fleet is converted; currently less than 10% of RGG's fleet is CNG. This change would reduce RY13 costs by \$283,097 and RY14 depreciation by \$18,873.

### **8.14 Licenses and Permits**

In Exhibit 1, RSF Schedule L.2, the stated expenses for General & Administrative Licenses & Permits are \$14,865 in RY13 and \$15,192 in RY14. At the April 24 hearing, Mr. Braslaw stated that a one-time RY12 expense of \$12,000 was incorrectly carried into RY13 and RY14 (Tr. pp. 580-581). After subtracting this amount and applying the inflation rates, staff recommends allowing expenses of \$2,625 in RY13 and \$2,682 in RY14, for a savings of \$12,510 in RY14.



### **8.15 Management Fees**

Recology's draft Application included a corporate inflation factor of 3.7%, which was reduced to 3.4% through the draft Application review process. At that time, staff recommended the inflation factor be further reduced to 3.2% to reflect a 2.2% projected increase in payroll and payroll taxes for RY14 versus Recology's 2.8% projected increase. The 2.2% projected increase recommended by staff is based on the State's 2014 projection of the change in the San Francisco-San Jose-Oakland CPI, which is the benchmark used for calculating indexed adjustments to labor and payroll expenses. Staff recommends setting the Corporate inflation factor to 3.2% versus the Company's 3.4% figure.

DPW's certified public accountant analyzed allocated Recology corporate costs to assess the appropriateness and reasonableness of allocated corporate charges (Exh. 70). The consultant analyzed the following allocated corporate costs in Exh 1, Sch. D all companies:

- Corporate Administration
- Human Resources
- Finance
- Information Technology
- Environmental Compliance
- Sustainability

Based on this review, the consultant determined that certain Recology corporate costs were improperly allocated to the Companies and therefore recommended a reduction in Recology's allocated cost basis of \$98,151. When allocated to the San Francisco companies, which have an allocation factor of 37.6%, this results in a reduction of \$36,905 to management expenses. Staff concurs with this recommended adjustment.

### **8.16 Brisbane Tax**

The Companies include a new Brisbane recycling fee of \$2.1 million for RY14 (RSF Sch. L.2 Licenses & Permits). At the April 15 hearing (Tr. pp. 13-17), the Companies confirmed that this is the business license tax on large recycling establishments adopted by the Brisbane voters in 2011 and City Council in 2012 (Exhs. 31-32). The Companies believe there is no way to avoid this tax and still provide San Francisco with current and expanded levels of service at the transfer station (located on property that borders both San Francisco and Brisbane). The Companies also verified the tax is treated as an operating ratio expense in the application (Tr. pp. 48-49). There is little risk that the Brisbane voters or City Council will modify this tax and it has a built in Consumer Price Index adjustment. While staff agrees that the tax appears to be unavoidable, nevertheless it should be treated as a pass-through cost, as are other business license fees and taxes imposed by other counties (primarily in Alameda), and moved to RSF Schedule F.2 and adjusted annually via the Cost of Living Adjustment mechanism.

## **9. Adjustments in Future Rate Years**

The Application includes several mechanisms for adjusting rates in future years. These adjustments would be utilized until there is a new application and rate proceeding.

### **9.1 Cost-of-Living Adjustment Mechanism**

The City and the Companies established the current Cost of Living Adjustment (COLA) mechanism as part of the last rate application process to allow recovery of cost increases due to inflation. That

mechanism incorporates a weighted COLA formula tied to either known (fixed) cost increases, or published indices such as the Consumer Price Index (CPI), the Producer Price Index (PPI), and a fuel index. The Companies have proposed two modifications to the current COLA mechanism:

- Changing the labor component to adjust labor rates consistent with the labor rate adjustments specified in the current labor agreements; and
- Segregating Health & Welfare costs from the labor component into a separate component to be escalated annually based on a five-year weighted average of cost increases as calculated by the Companies' health insurance carrier (Mercer).

Staff recommends the following changes to the COLA mechanism as proposed by the Companies, which are shown in Exh. 72.

- **Variable Labor COLA Rate** – Apply the Variable Labor COLA Rate (i.e., the change in the CPI) to:
  - Corporate Services Expense (Corporate Accounting, Corporate Management, Human Resources, IT Services and Sustainability), similar to the handling of Professional Fees, with a maximum annual increase of 5% and a floor of 0%;
  - The Labor portion of Freight Charges; and
  - Liability Insurance (currently tied to Fixed COLA).
- **Variable Materials PPI Rate** – Replace the PPI with a CPI adjustment factor. In many cases, line item expenses that are tied to the PPI in the COLA Adjustment Mechanism were adjusted in the Final Rate Application by the CPI (e.g., Bad Debt, Building and Facility Repair, Freight, OS Billing Services, OS Disposal, O/S Equipment Rental, Office, Parts etc.); staff feels that using the CPI to adjust these expenses is appropriate and consistent with the basis for the RY13 and RY14 projections.
- **Fuel Forecasted Rate** – Use the following two indices to adjust fuel prices:
  - CNG Fuel Pricing Index = The CNG Fuel Pricing Index, published by Pacific Gas and Electric Company Analysis and Rate Department, Series G-NGV1.
  - Biodiesel Fuel Pricing Index = California No. 2 Diesel Ultra Low Sulfur Fuel (0-15 ppm) Retail Prices (Dollars per Gallon), compiled and published by the U.S. Energy Information Administration.
- **Fixed Cost Factors** – Treat following expenses as fixed costs with no annual adjustment:
  - Bridge Tolls; and
  - O/S Disposal - Approximately 18% of RSF O/S Disposal related to non-Base Rate fees, with the remainder tied to the CPI.
- **Other** – Set Pension expense to projected increases (annual average increase of 0.31% for RSS/RGG and 1.25% for RSF for RY15 and RY16)

The table below summarizes the factors, index or source, and the weighted value of each factor (based on values in the final Application).

COLA Factor	Source/Index	Weight
Fixed Labor	As per CBAs	41.91%
Variable Labor COLA Rate	SF-CPI (U)	26.36%
Variable H & W Rate	Mercer Analysis	11.75%
Biodiesel Fuel	Weekly California No. 2 Diesel Retail Prices	3.04%
CNG Fuel	PG&E Series G-NGV1	0.76%
Capital Cost Inflation Factor	No Inflation	9.03%
Pension	Weighted Pension Increase Towers Watson	7.15%

Under both the Companies' and staff's proposed adjustment mechanisms, where the Fixed Labor Inflation Factor is tied to the negotiated labor rates in the collective bargaining agreements and the Variable H&W Rate is tied to costs increases as calculated by Recology's insurance carrier, there is no direct incentive for Recology to aggressively negotiate and limit increases in labor and health benefits to the benefit of the City's ratepayers. If an appropriate industry index, such as the Employer Costs for Employee Compensation (ECEC); Private Industry, All workers, Health Insurance CMU215000000000D, CMU215000000000P were used, the Companies would be more likely to negotiate health care benefits that are more in line with the industry and the City. As such, staff recommends that the COLA mechanism be reviewed and modified, as appropriate, in the next rate review process.

## 9.2 Zero Waste Incentives

The Companies propose evolved zero waste incentives based only on landfill tons. The Companies propose tier 1 be RSF Schedule E, p. 6, RY14 353,267 Total Disposal tons plus RSF Schedule E, p. 3, RY14 13,050 Sunset Tunnel & Beatty Trash Diverted tons. They propose tier 4 be the straight line amounts from tier 1 to a 90% reduction in those tons by 2020. Tiers 2 and 3 would be equidistant between tiers 1 and 4. They also suggest that when zero waste incentives are not achieved, the Companies be allowed to propose to utilize those funds for new diversion programs, subject to SFE and DPW approval (Exh. 1, Narrative Summary, pp. 12-13, Tr. pp. 81-88). Exhibit 50 shows the tons for each tier by rate year as proposed by the Companies.

Staff supports most of the methodology proposed by the Companies. As San Francisco has exceeded its goal of 75% landfill diversion and is now focused on meeting its goal of zero waste to landfill (or incineration), staff supports zero waste incentives based solely on actual tons landfilled. But staff feels that, as with past diversion incentives, the first tier should just be RSF Schedule E, p. 6, 353,267 Total Disposal tons. This is not a large decrease from RY13 disposal which is projected to be 367,396 tons. The 13,050 tons that are projected to be diverted from new trash processing should not be added and the operating ratio expenses included in the rate application sufficiently compensate the Companies for any risk associated with this project. With this staff adjustment, the zero waste incentives would be as follows:

Rate Year	Disposal Tonnages			
	Tier 1	Tier 2	Tier 3	Tier 4
2014	353,267	342,418	331,569	320,721
2015	353,267	331,569	309,872	288,174
2016	353,267	320,721	288,174	255,628
2017	353,267	309,872	266,476	223,081
2018	353,267	299,023	244,779	190,535
2019	353,267	288,174	223,081	157,988
2020	353,267	277,325	201,383	125,442
2021	353,267	266,476	179,686	92,895

Staff agrees that as landfilling decreases and additional reductions are harder to achieve, a more flexible new diversion program funding mechanism is desirable. But this must be balanced with zero waste incentives that truly are stretch performance incentives subject to some loss if not attained. Staff thus recommends that the first two tiers not be eligible for reinvestment. If not achieved, they should be rebated to the ratepayers as in the past. The second two tiers are more challenging and can be used to continue driving ambitious new programs, especially if the first two tiers are not realized.

Staff recommends that if tiers 3 or 4 are not achieved, the Companies be allowed to propose to utilize those funds for new diversion programs. At the completion of a rate year, in conjunction with their letter to the Director to withdraw funds from the incentive account for any tiers achieved, they can request funds not to exceed the tiers 3 and 4 amounts not achieved. The proposal shall include a description of the diversion project, a detailed budget and timeline, and the annual landfill tons to be reduced. SFE will evaluate if the proposal should be funded or not. If recommended, DPW may grant approval or reject the proposal and rebate the funds to ratepayer in the normal fashion when a tier is not achieved.

### 9.3 Toxics Collection Incentives

Commonly generated household hazardous wastes such as spent batteries, fluorescent lamps and unwanted paint may not be disposed of in the landfill. The City has worked with the Companies to introduce safe and convenient collection and recycling options for these wastes. Staff wants to increase capture of these wastes through the introduction of toxics collection incentives. Funds for incentives will be provided by manufacturers of these products and not by San Francisco rate payers. Below are details on how the incentive program will operate:

- Source of the Incentive: As mentioned by the Companies in the rate application, the City is in the process of establishing an Extended Producer Responsibility (EPR) Fund to deposit monies received from manufacturers for the collection and recycling (or safe disposal) of their hazardous and perhaps non hazardous products at the end of their useful life. Examples include hazardous waste products such as paint and batteries, and non-hazardous waste products such as packaging and carpet. The City intends to utilize the EPR Fund to provide incentives to the Companies for

reaching capture rate or diversion tonnage targets established by the City. The City is currently in negotiations with PaintCare, a product stewardship organization set up by architectural paint manufacturers, and will deposit monies received from Paint Care into the EPR Fund once an agreement is reached. The City is requesting that PaintCare provide reimbursement to cover approximately \$450,000 of expenses for collecting, processing, and, recycling or safely disposing of architectural paint on an annual basis. This amount is expected to vary every year based on collection volumes. And, PaintCare may not agree to provide reimbursement for the full amount requested. The contract with PaintCare is still being negotiated and is expected to be in place by summer 2013. The monies will be received on a quarterly basis after the contract is established. The proposed incentive program is contingent upon agreements reached with manufacturers or product stewardship organizations such as PaintCare. If, for whatever reason, the City does not receive monies from manufacturers or product stewardship organizations, including, but not limited to, PaintCare, the Companies will not be eligible for the toxics incentive described in the rate application. In no event will the amount of the incentive exceed the monies received by the City from manufacturers or product stewardship organizations.

- **Accrual of Funds:** If the Companies fail to meet either of the tier 1 or tier 2 targets proposed by the Companies and supported by staff (Exh.1, Narrative Summary, p.13), the Companies may propose programs to utilize the funds subject to recommendation by SFE and approval by DPW. The EPR Fund will continue to accrue monies if:
  - The Companies fail to meet targets and do not propose any program to the City; or
  - The City rejects proposals made by the Companies.

Monies accumulated in the EPR Fund and not utilized by the City for new programs will be rebated to the rate payers during annual rate adjustments or the next rate process.

- **Incentive Period:** The rate application includes annual targets and corresponding incentives for only for RY14-RY16 and only for three material categories. If a new rate process is not initiated within the three-year period, SFE will propose, subject to DPW approval, additional targets beyond RY16 for the three current material categories and possibly the addition of more material categories to the EPR Fund.

## **10. Impound Account**

The Impound Account is used for a number of pass-through costs on which the Companies are not allowed to make a profit. Historically, these costs include Altamont Disposal Fees (Contract Fees, Incremental Local Enforcement Agency Fee, Open Space Fees and the Annual WDR Fee), fees paid to the Waste Management Authority of Alameda County, Business Tax License fees and funding for City programs that support recycling and other programs relating to and benefiting ratepayers. The proposed funding for the Impound Account includes fixed and variable deposits. The payments for disposal fees, regulatory costs paid to Alameda County and the business tax license fees are based on tons delivered to the Altamont landfill, while the funds for City programs are fixed based on City departments' anticipated costs over the rate period. The actual expenditure of any monies in the Impound Account for City costs is subject to the City's annual budgeting process.

Two of the six per-ton disposal-related fees collected through the Impound Account increase; the other four remain identical to the prior rate period. The two that increase are the fee paid to the Waste Management Authority of Alameda County and the Open Space Fee. Both of these fees increase due to agreed-upon adjustments for inflation.

The Companies have included \$17,847,164 for deposit into the Impound Account in RY14 (Exh. 1, RSF Sch. F.2). Of this amount, \$3,232,765 is for the various disposal fees and business taxes, \$8,893,753 is for SFE and \$5,720,646 is for DPW. Monies for the Impound Account are collected from both residential and commercial customers.

### **10.1 Department of the Environment**

SFE's costs include expenditures for zero waste, toxics reduction, green building, environmental justice, and long term planning for disposal capacity, diversion and regulatory requirements (Exh. 12). Funding is also included for SFE to prepare for and participate in future rate proceedings.

The amount requested for SFE from the Impound Account is based on using the last approved amount through the Refuse Rate process as a baseline and increasing it by the Bay Area Consumer Price Index.

### **10.2 Department of Public Works**

For DPW, the \$5,720,646 in funding is broken down as follows:

- \$3,880,646 for existing programs to remove refuse from City streets and public properties (including mechanical street sweeping, litter patrol and block sweeping);
- \$967,000 to expand the Education, Compliance and Outreach program to combat illegal dumping;
- \$840,000 to replace public litter cans; and
- \$33,000 for staff costs for the future rate review process.

The \$3.88 million for existing programs represents less than 19 percent of DPW's annual expenditures for refuse-related services (Exh. 13). When Recology begins collecting abandoned materials (as described in Section 8.8 of this report), DPW will reassign staff to increase the service levels in other program areas, which are understaffed and not meeting the Department's service standards.

### **10.3 Combined City Departments**

The total proposed funding for the City from the Impound Account amounts to 5% of the total operating costs of the collection companies (RSS/RGG). A 2011 study conducted by the San Francisco Local Agency Formation Commission determined that San Francisco ranked 10<sup>th</sup> in a survey of 14 Bay Area cities in fees and services provided to the City (Exh. 42). According to the study, the proportion of City costs included in refuse rates ranged from 7% to more than 30%; the City of Oakland receives more than \$23 million annually and San Jose receives more than \$9 million from their service providers.

Because expenditure of amounts included for City departments in the Impound Account is subject to the City's annual budget process, which entails a public process and is subject to the approval of the Board of Supervisors and Mayor, neither the Director nor the Rate Board has final authority over the actual expenditure of these monies. Accordingly, this report concludes only that the total amounts requested by the Companies to fund the Impound Account are just and reasonable and are recommended with the above adjustments. If City department use of these funds as specified in this rate adjustment process is not approved through the regular City budget process, the decision-makers must recommend other appropriate uses of the monies consistent with this report.

Staff recommends that the Director's order include instructions to the Companies that the amounts specified for City departments be guaranteed, and deposits to the Impound Account will not be affected

by the Companies' actual revenues or financial performance. The funding levels for City departments will be adjusted annually by the COLA mechanism until the next rate proceeding.

#### **10.4 Revised Allocation Methodology**

Staff notes that the Companies have proposed changing how funds deposited in the Impound Account are allocated to the respective collection and processing companies. In past rate applications, the entire value of the Impound Account was allocated to Recology San Francisco, and was factored into the tipping fee. The Companies now propose to allocate only the various disposal fees and business taxes paid to other agencies to Recology San Francisco. Those amounts collected for the City departments would be allocated to the collection companies and reflected in the collection fees charged to residential and commercial customers.

Staff agrees with the revised allocation methodology. It is important to note that the revised methodology has no impact on residential rates; the same amount of costs are being included in the rate application, and no operating ratio is applied, regardless of how the Impound Account costs are allocated.

#### **11. Special Reserve Fund**

The 1988 Facilitation Agreement between the City and Sanitary Fill Company (now Recology San Francisco) established a requirement to create a reserve fund to be drawn upon from time to time to pay for "extraordinary expenses" which were not fully covered by the currently effective rates. This Special Reserve Fund was not to take the place of normal ratemaking processes, but to protect the Companies from major fluctuations in the rates for extraordinary expenditures that were not anticipated during the ratemaking process. The Facilitation Agreement requires a minimum balance of \$15 million to be maintained through the term of the Agreement. The Facilitation Agreement will expire concurrent with the expiration of the Waste Disposal Agreement between the City, Recology San Francisco and the Oakland Scavenger Company (now Waste Management of Alameda County). That agreement is not anticipated to expire until January 2016, and may expire at a later date, depending on the amount of waste landfilled (Exh. 56).

The Special Reserve Fund has been funded by a 1.3% surcharge on the Companies' volumetric billings to residents and commercial customers. Recology does not apply a cost-of-living-adjustment (COLA) or make a profit on monies collected for this account. Prior rate orders established this fund and set forth procedures for maintaining and making expenditures from this fund. Deposits into the Special Reserve Fund were suspended as of October 1, 2010. As of that date, the 1.3% surcharge on billings was re-allocated to the Impound Account for the use of DPW to offset the costs of removing refuse from City streets and properties, and for programs to prevent littering and illegal dumping.

There have only been a limited number of withdrawals from the Special Reserve Fund since its creation. A total of \$5,517,390 has been withdrawn from the account since 1988, primarily to pay for improvements at the Altamont landfill required by new environmental regulations. The account balance was \$29,529,003 as of April 30, 2013 and is growing at a rate of about \$160,000 a year due to accrued interest. The Companies have proposed discontinuing the 1.3% surcharge, consistent with prior Rate Board directions. Staff concurs with this action.

Staff believes that San Francisco is well protected by the reserve and that a \$15 million reserve would be sufficient to cover unanticipated costs, especially given previous investments in the Altamont landfill to maintain compliance with environmental regulations. Staff reports that San Francisco is unique in having such a large reserve for unforeseen expenses. According to SFE's survey of ten of the largest cities and

counties in the state in 2006, none maintained such a large reserve. The largest reserve was maintained by the City of San Jose, which had a reserve of between \$6 and \$7 million.

Upon expiration of the Facilitation Agreement, funds will remain in the Special Reserve Fund for up to five years, or until the Rate Board determines whether there is any continuing need for the fund. At that time, the Rate Board is required to allocate the remaining funds for the benefit of the then current and future residential ratepayers and commercial accounts of the Companies.

## **12. Contingent Schedules**

The Companies application includes two contingent schedules, with rate adjustments to go into effect when certain conditions are met.

### **12.1 Zero Waste Facility Expansion**

Staff agrees that to provide the infrastructure necessary for achieving zero waste will require an expansion of the Companies' Tunnel and Beatty site and facilities. This expansion will be needed to allow more advanced, integrated and increased processing of recyclables, compostables and trash. Staff has evaluated alternative siting options for a zero waste facility, including commissioning Zero Waste Facility Siting and Zero Waste Facility Transportation studies in 2011 that concluded expansion of the Tunnel and Beatty site into Brisbane was preferable to other site alternatives in San Francisco. Staff agrees that expansion of the Tunnel and Beatty site is the best option for a future integrated zero waste facility. Staff is supportive of purchasing additional adjacent land in Brisbane to meet the space requirements of a zero waste facility.

Despite staff's support of the Brisbane land acquisition, we do not believe enough is known, or can be known, about the actual terms of the proposed acquisition at this time to justify approval of the contingent rate schedule. To begin with, the Companies don't know exactly how many of the targeted parcels will be acquired, or what the ultimate cost of the acquisition will be (Tr. pp. 164-168). The land appraisal that the Companies submitted (Exh. 27) was for a set of parcels much larger than those being sought by the Companies. But the Companies did not submit any evidence showing whether the portions of the parcels that the Companies are seeking would appraise at the amount stated in the exhibit, or at an amount above or below that per square foot average. Mr. Glaub, Manager of Group Finance and Administration for the Companies, conceded that some of the parcels may sell for an amount greater than the appraisal's stated value (Tr. p. 168).

In addition to the yet-to-be-determined price, the terms of financing for the acquisition are also unknown. The Companies stated that they have not determined how they would fund the property acquisition, either through a bank loan or other form of financing, or through shareholders equity. Furthermore, they testified that they don't know what the terms of the financing (such as down payment, interest rate, return to investors, etc.) would be (Tr. p. 183).

Instead of basing their revenue needs for the proposed acquisition on actual costs, the Companies propose recovering their carrying costs for the property by applying a Weighted Average Cost of Capital (WACC) of 8.25% to the property acquisition price (Exh. 27, p. 1). WACC is calculated through a formula composed of a firm's cost of equity, cost of debt, the market value of the firm's debt and equity, and the percentage of the firm's financing that is debt and the percentage that is equity. The Companies did not present any of these values for RSF, the regulated entity that proposes to purchase the property, or for the corporate entity as a whole. Instead, the Companies calculated their WACC through a convoluted set of averages of and adjustments to the WACC's of three other firms in the refuse industry (Exh. 22, p.104, Tr. p. 558). The Companies also propose that this annual carrying cost be subject to the operating ratio



(that is, they would also earn profit on that amount). Under the proposal, the contingent schedule would remain in effect until the Companies complete development of a zero waste facility, but not longer than fifteen years.

It is staff's view that Contingent Rate Schedule 1, and the Companies' proposed approach to recovering the cost of land acquisition in the rates, have too many contingencies and unknowns. The rate setting process is based on an examination of actual or reasonably projected costs in a public process. Too many of the costs and terms of the proposed property acquisition are unknown at this time to allow for the full public review and staff analysis required to justify a rate adjustment. The use of a weighted cost of capital formula will be unnecessary once the property is purchased, because at that time the details of the financing used by the Companies to buy each of the properties will be known, including the details of any bank debt or other loans and the amount of shareholders equity, if any, used to buy each property. (Tr. pp. 185-186).

Staff expects that the Companies will need to submit a new rate application within two years to account for costs associated with new contracts for transportation and disposal at a new landfill (when the Altamont contract capacity is reached). Therefore, staff recommends that the Companies include costs for the land acquisition as part of that rate application. At that point, the Companies and the City will have the benefit of more extensive and concrete information regarding the terms of the property acquisition and will be better able to address the Companies' costs while also minimizing the financial burden on rate payers. In the meantime, staff recommends that the Companies engage with the City in investigating the possibility of having the City purchase the land on behalf of the rate payers. Under such a scheme, the Companies would not bear any carrying costs for the land purchase, and the rate payers would not be required to pay property financing or rental costs. It is possible that part of the balance in the Special Reserve Fund under the Facilitation Agreement may be used for this purpose if all parties were able to reach agreement on the arrangement.

## 12.2 West Wing Project

Staff believes new technologies are needed to process the entire trash stream for maximum recovery of compostable and recyclable material in order for San Francisco to achieve zero waste. Staff also believes that technologies need to be demonstrated at an adequate scale before they can be incorporated into the design and development of a future integrated zero waste facility. Staff agrees with the Companies that their Tunnel and Beatty site is very space-constrained and therefore not currently adequate for testing and developing these technologies. Staff evaluated the Companies' proposed Contingent Schedule 2 - West Wing Project as a near-term facility-expansion opportunity to provide the building space for this technology development.

As part of the review of the draft application, staff expressed concern at the amount of the proposed Contingent Sch. 2 costs, including \$10 million in construction costs for a 20,000 square foot building with \$500,000 annual depreciation. Staff asked the Companies to provide a detailed construction estimate for the building, as well as a plan on how the proposed equipment and labor would be utilized. In the final Application, the Companies proposed a scaled-down 13,000 square foot West Wing building at a \$6.6 million construction cost, with \$330,000 annual depreciation, and removed all previously proposed equipment and labor expenses, thus reducing total operating ratio expenses from \$2,922,746 to \$330,000. The Companies provided conceptual design drawings and construction cost estimates (Exhs. 29 and 30) for the revised West Wing. Staff evaluated the conceptual design and construction cost estimates and concur that the Contingent Schedule 2 costs now are reasonable. Staff supports this project as a critical near-term opportunity to advance the City toward zero waste.

### **13. Compliance with California Environmental Quality Act**

The Environmental Planning Division of the San Francisco Planning Department has evaluated the Companies' rate application under the requirements of the California Environmental Quality Act (CEQA). The Environmental Planning Division has determined that the actions contemplated in the application are statutorily exempt under California Public Resources Code Section 21080(b)(8) and State CEQA Guidelines §15273 (Exh. 73).

Staff proposes the following related findings, required by Public Resources Code Section 21080(b)(8) and State CEQA Guidelines Section 15273, be reflected in the Director's Report and Recommended Order:

(1) Planning has determined that the application is statutorily exempt from environmental review under California Public Resources Code Section 21080(b)(8), which provides that CEQA does not apply to the establishment, modification, structuring, restructuring or approval of certain rates, tolls, fares and charges by public agencies.

(2) The purpose of the Application is to (a) meet operating expenses, including employee wage rates and fringe benefits, (b) purchase or lease supplies, equipment, or materials, (c) meet financial reserve needs and requirements, and, (d) obtain funds for capital projects necessary to maintain service within existing service areas.

(3) The Companies have proposed and the City has approved rates needed for the Companies to "[meet] operating expenses, including employee wage rates and fringe benefits," as provided in the Application and the supporting schedules.

(4) The Companies have proposed and the City has approved rates needed for the Companies to "[purchase] or [lease] supplies, equipment, or materials," to support their refuse collection and disposal activities in the City, as provided in the Application and the supporting schedules.

(5) The Companies have proposed and the City has approved rates needed for the Companies to "meet financial reserve needs and requirements," as provided in the Application and the supporting schedules.

(6) The Companies have proposed and the City has approved rates needed for the Companies to "obtain funds for capital projects necessary to maintain service within existing service areas," as provided in the Application and the supporting schedules.

### **14. Future Ratemaking Procedures**

In 2005, the Director instituted new procedures to improve the rate review process. The rules of procedure for the 2013 Application are consistent with the improvements instituted in 2005, with only modest revisions to provide clarity on the requirements for submission (DPW Order No. 181,252). Among other things, the procedures require the Companies to submit a notice of intent to file a rate application at least 180 days in advance of the application itself. This pre-application period allows for greater review by staff to determine the completeness of the application, and more meaningful participation by the public via workshops.

This year, the Companies are proposing a one-year rate for the rate year beginning July 1, 2013 (RY14), adjusted annually thereafter based on a cost-of-living adjustment formula specified in the application; as noted in Section 9.1 of this report, staff proposes slight modifications to the COLA mechanism. While the proposed rates are anticipated to be in effect for three years (through June 30, 2016 (RY16)), the Companies identified in their application the possible need for a rate adjustment prior to that date to reflect a possible change in the City's landfill agreement. The Companies requested that "a streamlined rate setting procedure be adopted" (Exh. 1, Narrative Summary, p. 15).

Staff agrees with the Companies' request. The first reason for a streamlined rate setting procedure is anticipated changes to the City's landfill disposal arrangements. According to testimony by SFE, San Francisco is likely to reach its contracted capacity for refuse disposal at the Altamont landfill by January, 2016 (Exh. 56), or approximately six months before the Companies would otherwise seek a rate adjustment. According to the historical data, the tons of refuse sent to Altamont have been declining steadily since 2000, so it is possible that the contract capacity of 15 million tons would not be reached until later in 2016. Nevertheless, it is clear that the City will need to replace the Altamont disposal contract in the near future. Any new contract, in turn, is likely to result in new tip fees, which potentially would require an adjustment to the collection and disposal rates.

The second reason for adopting a streamlined rate setting process is the proposed acquisition of additional real property by the Companies for refuse processing. Staff is recommending rejection of Contingent Schedule 1, by which the Companies seek to be reimbursed for the purchase of land to facilitate the future development of additional zero waste infrastructure (see Section 12.1 of this report). Staff agrees that acquisition of the subject property may be necessary, and does not oppose inclusion of the reasonable acquisition costs in the rate base when the actual costs are known. Staff believes better information regarding the property acquisition costs will be available in the same time frame as information regarding new landfill disposal and hauling expenses, and that both issues could be covered in a rate application considered under streamlined procedures.

Staff recommends that the Director adopt procedures that streamline the pre-application period, reducing the current requirement of 180 days to 60-90 days, depending on the number of issues and complexity of the Companies' request. Any future application would still be subject to the 150-day review period specified in the 1932 Refuse Collection and Disposal Ordinance.

Staff also recommends that the Director require the Companies to submit an application in substantially the same format as currently required under the rules of procedure, including updated information regarding actual revenues collected under the new rate structure proposed as part of the current application. Given the changes in both the residential and apartment rate structures (including fixed charges per unit and for recycling and composting bins, and incentives for diverting more materials), the Companies acknowledge that their revenue projections may be affected by changes in service levels, and by the removal of caps on apartment customers' bills in RY15 and RY16. Staff recommends additional reporting on the Companies' actual revenues under the new rate structures to allow monitoring of the effect of these changes on the Companies' revenues (see next section). Based on those reports, staff may also request additional information or schedules be submitted as part of the next rate application.

SFE will continue to track the disposal of materials at the Altamont landfill and refine the estimated remaining life under the terms of the existing contract, based on actual tons. The Companies are encouraged to work with City staff to explore options for acquiring additional land for a future zero waste facility, including those discussed in section 12.1 of this report. These steps will help determine the likely timing of a future rate adjustment, and allow sufficient notice for the Director to issue rules for a streamlined rate setting procedure.

## **15. Additional Reporting Requirements**

In accordance with prior Directors' orders, the Companies submit quarterly and annual reports to the City. These reports include information on the amount of materials landfilled and diverted, commercial recycling and composting accounts, toxics collection, revenues and expenses, the various accounts (the Special Reserve Fund, Impound Account, and Diversion Incentive Account), etc. The City uses this

information to monitor the Companies' efforts to achieve diversion and other goals established during the rate proceedings.

Given the proposed changes in the residential rate structure (and in particular the apartment rate structure), the Companies acknowledge that their revenue projections are subject to uncertainty. In response to the rate structure changes, the Companies have assumed that both commercial and apartment customers will change their services, resulting in a reduction in revenues due to migration (Exh. 1, RSS/RGG Schs. B.1-3). The Companies have also assumed that apartment customers will change service levels and/or service configuration to offset any additional revenues that would otherwise be generated by the removal of the 25 percent cap in RY15 and the 50 percent cap in RY16 (Exh. 1, RSS/RGG Sch. C, p. 4). The Companies estimate that if apartment customers do not adjust service levels when the caps are removed, the proposed rates would generate an additional \$4.6 million in revenue annually (Exh. 54).

In order to more closely monitor the actual revenues collected by the Companies under the new rates, staff recommends that the quarterly reports be submitted within 60 days of the end of each quarter (currently 90 days), and that actual revenues and expenses be included in the quarterly reports (currently required only annually). In addition, the Companies should include information on the number of apartment customers whose monthly bills are subject to the rate caps, and an assessment of the extent to which apartment customers are modifying their service levels to offset rate increases. Staff recognizes that quarterly revenue and expenditure reports will be unaudited, and that only the annual reports will be reconciled to the Companies' audited financial statements.

To get a better periodic status of commercial accounts, staff recommends replacing the existing Table 4 in the quarterly reports with the following table:

**Table 4**  
**Commercial Accounts**

<b>Recology Sunset Scavenger &amp; Recology Golden Gate, Combined</b>	<b>Number of Accounts</b>	<b>Percent of Total</b>
Total Accounts		100%
Trash Compliant		
Recycling Compliant		
Composting Compliant		

Staff also requests changes to quarterly Table 5 to include additional information that will help the City complete its required reports to the state on toxics collection efforts, as follows:

**Table 5a  
Toxics Collection and Participation  
(Rate Year Cumulative)**

Program	Collection Weight	Service Standard	
	Lbs. Handled	Number	Unit
HHW Facility Drop-off			customers served
HHW Home Collection			addresses served
HHW Home Collection	<i>not tracked</i>		equivalent loads
Very Small Quantity Generator			businesses served
Residential Curbside Battery Collection		<i>not tracked</i>	
Apartment Building Battery Collection			pick-ups
Retail Collection Partners			pick-ups
Gigantic 3 Collection Events			customers served
Waste Acceptance Control Program		<i>not tracked</i>	
Bulky Item Recycling - E-Waste			addresses served
Bulky Item Recycling - Non E-Waste			addresses served
Public Drop-Off - E-Waste		<i>not tracked</i>	

Finally, staff requests a new table to allow the City to track the Companies' progress toward meeting the toxics incentive collection targets. This table should also be included in the quarterly report:

**Table 5b  
Toxics Collection Incentives**

Toxics Item	Target (tons)	Actual (tons)
Latex Paint		
Oil-Based Paint		
Paint Distributed for Direct Reuse		
<b>Total Paint</b>		
Household Batteries - Single Use		
Household Batteries - Rechargeable		
<b>Total Household Batteries</b>		
Fluorescent & Other Mercury-Containing Lamps		

**16. Response to Comments**

Members of the public offered comments on the Application at the DPW workshops, during public comment at the Director's hearings, and through the Ratepayer Advocate (Exh. 64). Staff considered all of the comments received from the public and the Ratepayer Advocate during the course of reviewing the Application; in a number of instances those comments influenced our recommendations. This section responds to specific issues raised by members of the public; similar comments have been combined by topic.

1. The magnitude of the rate increase seems excessive – especially when inflation is only 3%. Rate application should be cost-driven.  
Response – The Companies' Application indicates that of the 21.5% rate adjustment, 16.1% is due to a revenue shortfall caused by migration to diversion service and the economic downturn. Staff has analyzed both the expenses and revenues of the Companies to assure that the rate adjustment is just and reasonable.
2. The fixed charge for recycling and compost bins should be the same, regardless of volume.  
Response – Larger volume bins have higher service costs. Customers can switch to smaller volume bins to reduce charges.
3. Rates should be on a sliding scale to reflect amount of materials picked up.  
Response – Rates are scaled by volume in fixed increments; the bigger the bin, the higher the charge. The technology is not sufficiently advanced to charge based on a true sliding scale bill for actual material by weight or volume.
4. Success of recycling program could result in more income from recycled products.  
Response – More recycling tons and higher commodity prices result in increased recycling revenue. Recycling revenue offsets expenses to set rates.
5. COLA increases should not simply be passed through to ratepayers.  
Response – Staff agrees that the annual cost-of-living-adjustment should be tied to available indices, and is making recommended changes to that effect. Having an adjustment mechanism saves ratepayers the considerable expense of a full rate review process.
6. City should examine the profit/rate of return the Company is allowed to earn.  
Response – In 2006, the City established that the Companies would be allowed to calculate rates based on an operating ratio of 91%. In addition, the City created a diversion incentive program to encourage the Companies to make investments to increase the amount of materials being diverted from landfill; the Companies could earn up to an additional 2% operating ratio. The total potential operating ratio of 89% translates to a profit of 12.36%. The City recently surveyed other jurisdictions and determined that the existing operating ratio is reasonable. There are several items in the rate base upon which the Companies are not allowed to earn profit (e.g., Altamont disposal cost, Alameda fees, Impound Account items); these items are considered pass-through costs, so the Companies' effective profit margin is lower.
7. Management salaries should be examined.  
Response – The City's financial consultants have examined these salaries and not found them to be unreasonable.
8. San Francisco refuse rates are already extremely high.  
Response – The Companies provided a rate survey that shows San Francisco rates are comparable to other Bay Area jurisdictions when taken as a whole (Exh. 35).
9. Recology has a monopoly, a no-bid contract.  
Response – Refuse collection in San Francisco is governed by the 1932 Initiative Ordinance, which specifies an open permit process for collection of refuse and a rate review process to determine that proposed rates are just and reasonable.

10. Enforce laws against recycling theft. Revenues could offset need for rate increase.  
Response – DPW and SFE have asked the police department and district attorney to enforce the anti-poaching laws, particularly against people in vehicles, and recently against the newer development of mobile buybacks. But effective enforcement also depends on the actions of judges and local juries. Poaching losses, by their nature, are extremely difficult to estimate. If strong enforcement were to happen and all poaching could be eliminated, the additional gross revenue would only reduce the rate by about 1%. And the cost of such enforcement, and added collection and processing, would offset a significant portion of this revenue.
11. Impound Account funding levels should be guaranteed and included in the Director's order.  
Response – Staff agrees and has included a recommendation to that effect in the report.
12. Recology needs the money to pay for billboard advertisements against last year's initiative.  
Response – The City's financial consultants reviewed the Companies' financial statements against the rate application to ensure that these items were excluded from allowable expenses in the application.
13. The City should allow e-mail and fax protests, not just written protests, to the proposed rate increase.  
Response – All comments, whether by email, fax or through the Ratepayer Advocate, are considered in the rate process. However, for protests under Proposition 218, the City is following the requirements of the State Constitution and the Government Code, which provide for written protests, signed by the person submitting them, and delivered in person or by mail to the hearing officer.
14. Unclear how charges for multiple pickups will be computed.  
Response – Weekly service charges are multiplied by the number of collections per week. Monthly fixed charges stay the same regardless of the number of collections per week.
15. How does the transfer of abandoned materials collection and public litter can maintenance benefit the ratepayer? How do Recology's costs compare to the City's costs for these services? What would DPW do with its packer trucks?  
Response – Almost all of the abandoned materials on the streets and materials in the public litter containers is generated by ratepayers or tenants or customers of ratepayers. Just as bad debt is included in the rate base, improperly put out refuse is collected using the rate base. The issue of comparative costs was addressed in the hearings where DPW's Manager of Finance, Budget and Performance was cross examined by the Ratepayer Advocate. DPW will repurpose its newer refuse trucks for landscaping and tree maintenance and special projects purposes. Trucks at the end of their useful life will be sold for salvage value.
16. What is the rationale for the fixed charges (per unit, per bin)?  
Response – Fixed charges are per dwelling unit or commercial account. Service costs have fixed and variable components.
17. What will the special reserve charge be applied to?  
Response – Now that the Special Reserve Fund has reached (and exceeds) its required funding level, the surcharge is being discontinued.
18. The tip fee at transfer station charged by the parent company represents a monopoly rate.  
Response – The processing and disposal fee charged by Recology San Francisco for materials brought to the transfer station, including materials delivered by the collection companies (RSS

and RGG), is also subject to review and approval by the Director, and is included in the rate application. All costs are subject to the same level of review by city staff. Staff has recommended a number of adjustments, as described in this report. The processing and disposal amounts charged to the collection companies are considered pass-through costs, so no profit is calculated in determining the residential rates.

19. Contract [rate adjustment] should be for only one year; there is a built-in rate adjustment of 25% in RY14, when residential cap is removed.  
Response – While the Companies are requesting a one-year rate, they have also proposed a mechanism for adjusting rates annually based on a cost-of-living formula. This mechanism has been used successfully in the past. The caps are on apartment, not residential, rates.
20. The Director's report should set a maximum level of funding for DPW programs included in the rate base. DPW activities funded from Impound Account should be enumerated in the Annual Appropriation Ordinance.  
Response – In the 2012 rate proceedings, the Rate Board affirmed the inclusion of DPW solid waste management services in the rate base. The amount included in the current rate application for on-going activities represents approximately 19% of DPW's annual expenditures for refuse-related services (Exhibit 13). While we do not anticipate increasing the amount funded from ratepayers, things could change. Any proposed adjustments would be discussed in public workshops first. DPW's costs are enumerated in the Annual Appropriation Ordinance by program area; funding from the Impound Account is one of several sources for these programs.
21. Revenue derived from fines for trash-related offenses should not go to the City's general fund; DPW should have access to offset enforcement expenses.  
Response – Staff is working on legislation to allow the revenue to be rebated to ratepayers.
22. The Director should hold public hearings on any proposal by the Companies to purchase land for a zero waste or other processing facility.  
Response – The Director will conduct hearings on future rate adjustments that will include any land purchase. There will be other public hearings, such as those required by CEQA, relating to the use of any land purchased.
23. Are there capital costs for improvements at the Companies' composting facilities included in the rate base? If so, what are the details about financing and amortization?  
Response – Other Recology companies are incurring capital costs for improvements at their composting facilities. Financing and amortization details are not needed for analysis as the facilities charge market-based, per ton, tip fees that are included in the rate base.
24. The rate application should include a breakdown of costs by program (e.g., residential recycling). Similarly, revenues should be broken down by source (e.g., composting revenue) and tip fees by stream (e.g., trash).  
Response – Programs are intentionally integrated for efficiencies and typically share collection and processing infrastructure, labor, etc. Overhead and other expense and revenue structures are very complex. It is an extremely time consuming process, involving lots of assumptions and even allocations of allocations, to identify programs and subsectors, then separate and assign costs and revenues, and calculate net costs and tip fees. Specifically, composting revenue offsets composting costs in setting a market-based tip fee. Limited staff and consultant time is better spent evaluating the rate application in other ways to set just and reasonable rates.



25. Companies should advise customers of ways to reduce their trash service (black bin) in order to lower their bills.  
Response – The Companies and SFE frequently advise customers on ways to adjust their service and reduce their bill.
26. What is the nexus between residential ratepayers and the Department of the Environment's zero waste programs?  
Response – SFE receives funding from all ratepayers and allocates its zero waste resources accordingly.
27. Customers will take advantage of the opportunity to reduce their garbage bills by switching to smaller bins, then simply placing refuse on the city streets; what can be done to prevent this?  
Response – Staff believes that the vast majority of ratepayers are good actors and will continue to abide by city regulations and common sense. DPH can cite, place a lien on property for failure to have adequate service. DPW's new Education, Outreach and Compliance program, described elsewhere in this report, will also help ensure everyone has adequate refuse service.
28. Why should I have to pay every week for a black bin I never put out?  
Response – Ratepayers should be commended for generating little trash. Recycling and composting collection and processing, and other programs, have net costs that we are evolving off of trash rates as quickly as possible. Smaller trash bins and minimums are not possible at this time. But we continue to explore options and are testing pay per setout, where you only pay for trash collection when you put your black bin out.
29. Recology is planning to take refuse to a new landfill further from the city (Ostrom Road).  
Response – San Francisco is projected to deplete its contracted capacity at the Altamont landfill around January 2016. The City is securing additional capacity and anticipates another rate process before this capacity is utilized. The City will consider disposal prices in securing the additional capacity.
30. DPW should enumerate how it is spending Impound Account funds.  
Response – DPW's expenditures are detailed in Exhibit 13.
31. Is there an opportunity for residential customers to get black bins of less than 20 gallons?  
Response – Multi-family buildings have a trash minimum of 16-gallons per unit. A 20-gallon bin is the smallest available for single-family. Available collection technology (i.e., trucks and loaders) does not accommodate bins smaller than 20 gallons.
32. Is there a minimum frequency for setting out the black bin under the pay per setout program?  
This program needs regulations to ensure that customers don't store refuse for extended periods.  
Response – There is no minimum setout frequency if the trash contains no compostables. Compostables must be set out at least weekly.
33. How can San Francisco enforce local hiring commitments made by Recology for the zero waste facility, when it will be located in Brisbane?  
Response – Recology has voluntarily committed to pursue local hiring goals. If the Companies do not make good faith efforts to achieve those goals, the City may follow up as part of future rate proceedings.

34. Have DPW and SFE complied with the provisions of the 2012 Rate Board order to publish certain reports and provide a more robust forum for public engagement?  
Response – Yes. DPW has prepared an analysis of the amount of materials collected and diverted by activity (e.g., street sweeping, abandoned materials) and posted the information on DPW’s web site. In addition to the Director’s hearings, this rate process included two public workshops, which provide a more informal opportunity for members of the public to engage directly with the Companies and City staff.
35. How can the Director of Public Works be an impartial hearing officer for these proceedings, given that funding for his department is included in the rate application?  
Response – The Director is required to recommend “just and reasonable” rates under the 1932 Ordinance. The Director follows a carefully constructed public process to reach those recommendations, and that process allows all parties to review and test all evidence presented. The allocation to DPW is less than 2% of the collection rate.
36. Does Recology’s assumption of replacing doors and liners on the public litter cans raise a Proposition J concern?  
Response – No. The incidental labor that Recology would provide in replacing doors and liners on public litter cans would be done at the initiative of the Companies. The City is not contracting with Recology to perform the work at the City’s direction.
37. Recology should track diversion of materials from the public disposal and recycling area and the bulky item collection program and the reuse value of those materials.  
Response – Recology does track diversion from the Public Reuse and Recycling Area and Bulky Item Recycling. Reusable materials are provided to nonprofits.
38. Recology’s proposed response times for collecting abandoned materials may be too ambitious; some pickups should be scheduled for the next day to improve efficiency.  
Response – It is important that abandoned materials be removed from the streets as quickly as possible. Abandoned materials can create a public safety issue and interfere with access to the public right-of-way, especially to disabled or elderly residents. Like graffiti, quick removal of materials reduces the amount of total items placed on the streets.
39. Organization charts for the companies would allow review of supervisory positions, span of control, etc.  
Response – Information on staffing levels, including supervisory positions, is provided in the various schedules in Application; organization charts would not add value to the City’s review.
40. Would the companies be able to operate more efficiently by combining their two maintenance facilities?  
Response – There may be some efficiencies to be gained by combining the two maintenance facilities. There are also some efficiencies from operating vehicles out of two locations. The City will continue to explore overall efficiencies with the Companies.
41. There should have been efficiencies from combining Sunset Scavengers and Golden Gate Disposal customer service representatives; where is this reflected in the application? Why are the companies proposing two new positions?  
Response – There have been some efficiencies from combining customer service operations. Staff has requested additional information from the Companies and is recommending one less position.

42. Tonnage from public litter cans appears to be increasing; there should be targeted reduction of public litter cans to reduce the tonnage collected from them.

Response – There is no evidence that public litter can tons are increasing. The Companies conducted an audit recently to estimate tonnage more accurately. The City has reduced the number of public litter cans.

43. The Diversion Incentive Program should be expanded to include materials diverted to reuse and for the percent of recyclable materials sold for actual reprocessing in Northern California.

Response – The Zero Waste Incentives are focused on San Francisco's overall goal of zero waste to landfill. The City works with the Companies to increase reuse (e.g., St. Vincent de Paul at the Public Reuse and Recycling Area) and local markets for materials (e.g., most plastic end markets are now in Northern California).

44. The city should pay \$3 for every mattress brought to the transfer station.

Response – Mattress deposits are a good idea to maximize recovery, but deposit systems are extremely challenging to administer at the local level. Instead, the City is supporting an effective state mattress producer responsibility bill that has a good chance of being chaptered this year.

45. The San Francisco Housing Authority is seeking relief for its low-income residents, and requests eligibility for the lifeline rate.

Response – Staff is examining this issue and plans to discuss it in public hearings in May.

**ATTACHMENT A**  
**LIST OF HEARING EXHIBITS**

4/12/2013

1.	Final Rate Application	Recology
2.	Post-Filing Changes	Recology
3.	Narrative Summary	Recology
4.	Schedule B-1	Recology
5.	Components of Rate Increase	Recology
6.	Revenues: Projections & Actuals	Recology
7.	Residential Customer: Downsize	Recology
8.	Residential Customer: Downsize Upsize	Recology
9.	Residential Customer (1-5 Units)	Recology
10.	Apartment Customer (once a week service)	Recology
11.	Apartment Customer (reduce frequency of service)	Recology
12.	Impound Account Projects	City
13.	DPW memo	City
14.	2012 Hearing Officer's Report	City
15.	HDR Report	City
16.	Public Workshop: Allocation of Refuse Rate Surcharge	City
17.	Bulky Item Collection Requests	City
18.	Ratepayer Advocate Overview	Advocate
19.	Ratepayer Advocate Comments 4/2/13	Advocate
20.	Summary of March 21st Workshop	Advocate
21.	Follow-Up to March 21st Workshop	Advocate

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|----------------------|--|----------|
| 22.                  | Summary of Application   | Advocate |
| 23.                  | Initial Comments on Rate Application   | Advocate |
| 24.                  | Follow-Up to January 17th Workshop   | Advocate |
| 25.                  | January 17th Workshop Summary  | Advocate |
| 26.                  | Map re: Contingent Schedule 1  | Recology |
| 27.                  | Methodology for Calculation of Carrying Costs for Plant Held for Future Use  | Recology |
| 28.                  | Letter, dated 4/11/2013, re: Contingent Schedule 1   | Recology |
| <br><u>4/15/2013</u> |  |          |
| 29.                  | E-mail from J. Glaub to R. Haley, dated 2/4/2013, "West Wing Conceptual Design Package"                                      | Recology |
| 30.                  | E-mail from J. Glaub to J. Macy, dated 2/7/2013, "West Wing Cost Estimate"   | Recology |
| 31.                  | Brisbane City Council Resolution No. 2011-35   | Recology |
| 32.                  | Brisbane City Council Resolution No. 2012-36   | Recology |
| 33.                  | COLA Mechanism Report (Armanino)   | Recology |
| 34.                  | Fixed vs. Variable Cost Analysis (Armanino)  | Recology |
| 35.                  | Rate Survey – 1/31/2013 (Armanino)   | Recology |
| 36.                  | Schedule G-3: Health Insurance and Postretirement Expenses   | Recology |
| 37.                  | 2012-16 Collective Bargaining Agreement between Recology and Sanitary Truck Drivers Drivers and Helpers Union Local 350, IBT | Recology |
| 38.                  | Letter from Towers Watson to A. Tabak, dated 3/25/2013, "Pension Plan Funding Projection"                                    | Recology |
| 39.                  | Less Than Weekly Service (to be known as Pay per Setout) Proposal Summary  | Recology |

40.	<p>Written Protest Against Proposed Rate Change, dated 8/2/2010; Notice of Rate Decision, dated 10/8/2010; Written Objections to Hearing Officer's Report, dated 8/31/2010; Prepared Remarks to Rate Board, dated 9/30/2010; DPW Order No. 178,941; Letter to Hearing Officer, dated 4/23/2012; Letter to City Administrator, dated 5/25/2012; 2012 Rate Board Order; DPW Order No. 180,442</p>	D. Pilpel
<u>4/22/2013</u>		
41.	Abandoned Materials Collection	Recology
42.	2011 R3 Report to SF LAFCo re: Selection of Refuse Collection, Hauling and Disposal Providers	City
43.	Organics Infrastructure and Operations	Recology
44.	SF Feedstock	Recology
45.	Food Scraps Capacity in the Bay Area 2013 Benchmark Data	Recology
46.	Recology Allocation and Trends (Workers Compensation)	Recology
47.	E-mail, dated 4/19/2013, from M. Harrington to A. Tabak (Liability Insurance)	Recology
48.	Recology Revenue Trends	Recology
49.	Revenue and Waste Generation vs. Economic Indicators	Recology
50.	Zero Waste Incentives	Recology
51.	Calculation of Small Company Size Adjustment (WACC)	Recology
52.	Apartment and Commercial Migration to Date	Recology
53.	Reconciliation of Rate Application (Revised vs. Original)	Recology

4/24/2013

- |     |  |          |
|-----|--|----------|
| 54. | Apartment Revenue Analysis:<br>Impacts of Apartment Cap                                  | Recology |
| 55. | Commission on the Environment Guidelines<br>for the Use of Impound Account Funds         | City     |
| 56. | Tons Sent to Altamont  | City     |
| 57. | Recology Organics Group Customers,<br>Material Types and Rates                           | Recology |
| 58. | City of Berkeley/Recology Grover<br>Environmental Products Contract (2010)               | City     |
| 59. | City of Berkeley/Recology Grover<br>Environmental Products Amendment (2012)              | City     |
| 60. | SBWMA/Recology Grover<br>Environmental Products Contract (2011)                          | City     |
| 61. | Recology The Compost Store   | City     |
| 62. | "That's WACC!" entries for Waste Management,<br>Republic Services, and Waste Connections | City     |
| 63. | "Monetizing the Trash" \$3 per mattress  | R. Davis |
| 64. | Public Comment Received by<br>The Ratepayer Advocate                                     | Advocate |

**ATTACHMENT B**

**TABLE OF PROPOSED STAFF CHANGES  
TO 2013 REFUSE RATE APPLICATION**

**RECOLOGY SAN FRANCISCO**

<b>Schedule</b>	<b>Proposed Change</b>
E	Reduce "City Can Allocation" tonnage by 1,643
G.1	Reduce Recycle Central Regular Payroll - FTE Union -Sorter/Material Handler from 67.5 to 65.5
G.2	Reduce RSF Local 3 pension expense from \$10.35 to \$10.11
G.3	Reduce reinsurance fees from \$110 to \$63
H.2	Increase lease term for stationary equipment from 7 to 10 years
J.1	Reduce compostables processing rate from \$48.64/ton to \$45/ton
L.2	Remove incorrect license and permit expense of \$12,000 in RY12
L.2	Disallow operating ratio on Brisbane license fee
M.2	Reduce inflation factor on corporate services expenses from 3.4% to 3.2%
M.2	Exclude certain corporate expenses from allocation to SF companies

**RECOLOGY SUNSET SCAVENGER/RECOLOGY GOLDEN GATE**

<b>Schedule</b>	<b>Proposed Change</b>
B.3	Reduce apartment migration to 1.4%
D, F.1	Reduce pay per setout -- amortize rollout costs (except lease) over 7 instead of 3 years; remove 1 route
F.1	Increase Apartment Revenue for 2,847 new units
G.1	Reduce G&A Regular Payroll - FTE Union - Clerical from 24 to 23
G.1	Reduce T&G Regular Payroll - FTE Union - Shop from 51.3 to 50.3
G.3	Reduce reinsurance fees from \$110 to \$63
H.3	Eliminate RGG (smaller of 2) Facility Upgrade-Maintaining/Serviceing CNG
J	Increase Fantastic 3 tonnage by 1,643
L.3	Reduce CNG fuel expense
M.2	Reduce inflation factor on corporate services expenses from 3.4% to 3.2%
M.2	Exclude certain corporate expenses from allocation to SF companies



Recology Sunset Scavenger/Recology Golden Gate  
 Rate Application, Schedule B.1  
Rate Calculations - Total Revenues

DPW Revisions

	<b>RY 2014</b>
Operating Ratio Expenses	\$ 151,080,367
<b>Calculated Operating Ratio Expenses</b>	<b>151,080,367</b>
Allowed Operating Ratio	91.00%
<b>Operating Expense with Operating Ratio</b>	<b>166,022,381</b>
<b><u>Non-Operating Ratio Expense</u></b>	
Disposal Cost	38,856,213
Processing Cost	51,350,555
Impound Account	14,614,399
<b><u>Revenue</u></b>	
Non Rate Revenue	(18,548,561)
Apartment - Migration	738,846
Commercial - Migration	2,142,421
Paperless Bill Credit	180,400
Compactor Rate Adjustment	1,629,025
Residential - Change in 20-gal Volumetric Charge	1,257,219
Diversion Incentive (2% OR)	3,730,840
<b>Net Revenue Requirement</b>	<b>261,973,738</b>
Revenue @ Current Rates	219,883,300
<b>Difference</b>	<b>42,090,439</b>
Overall Revenue Increase	19.14%
<b>Operating Expenses with 89% OR</b>	<b>169,753,221</b>
<b>Variance to 91% OR</b>	<b>3,730,840</b>
<b>Net Revenue Requirement @ 89% OR</b>	<b>261,973,738</b>

Recology San Francisco  
 Rate Application, Schedule B  
Rate Calculations - Processing and Disposal

DPW Revisions

		<b>RY 2014</b>
Operating Ratio Expenses	\$	97,299,613
<b>Calculated Operating Ratio Expenses</b>		<b>97,299,613</b>
<i>Allowed Operating Ratio</i>		<i>91.00%</i>
<b>Operating Expense with Operating Ratio</b>	\$	<b>106,922,652</b>
<b>Existing Capital Charge</b>		-
<b><u>Non-Operating Ratio Expense</u></b>		
Impound Account	\$	5,332,765
Altamont Disposal		4,362,273
<b>Revenue</b>		
Other Commercial Revenues		(988,704)
Recycling Revenues		(20,836,599)
Diversion Incentive		2,402,756
<b>Net Revenue Requirement</b>	\$	<b>97,195,144</b>
<b>Percent Increase</b>		<b>4.60%</b>
<b>Current Tipping Fee per Ton</b>	\$	140.76
<b>Proposed Tipping Fee per Ton</b>	\$	147.23
<b>Total Revenue Tons</b>		<b>660,164</b>
<b>Operating Expenses with 89% OR</b>	\$	<b>109,325,408</b>
<b>Variance to 91% OR</b>		<b>2,402,756</b>
<b>Net Revenue Requirement @ 89% OR</b>	\$	<b>97,195,144</b>

# Operating Ratio Study

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Presented to:

City and County of San Francisco  
Department of the Environment  
1455 Market Street, Suite 1200  
San Francisco, CA 94103

Presented by:

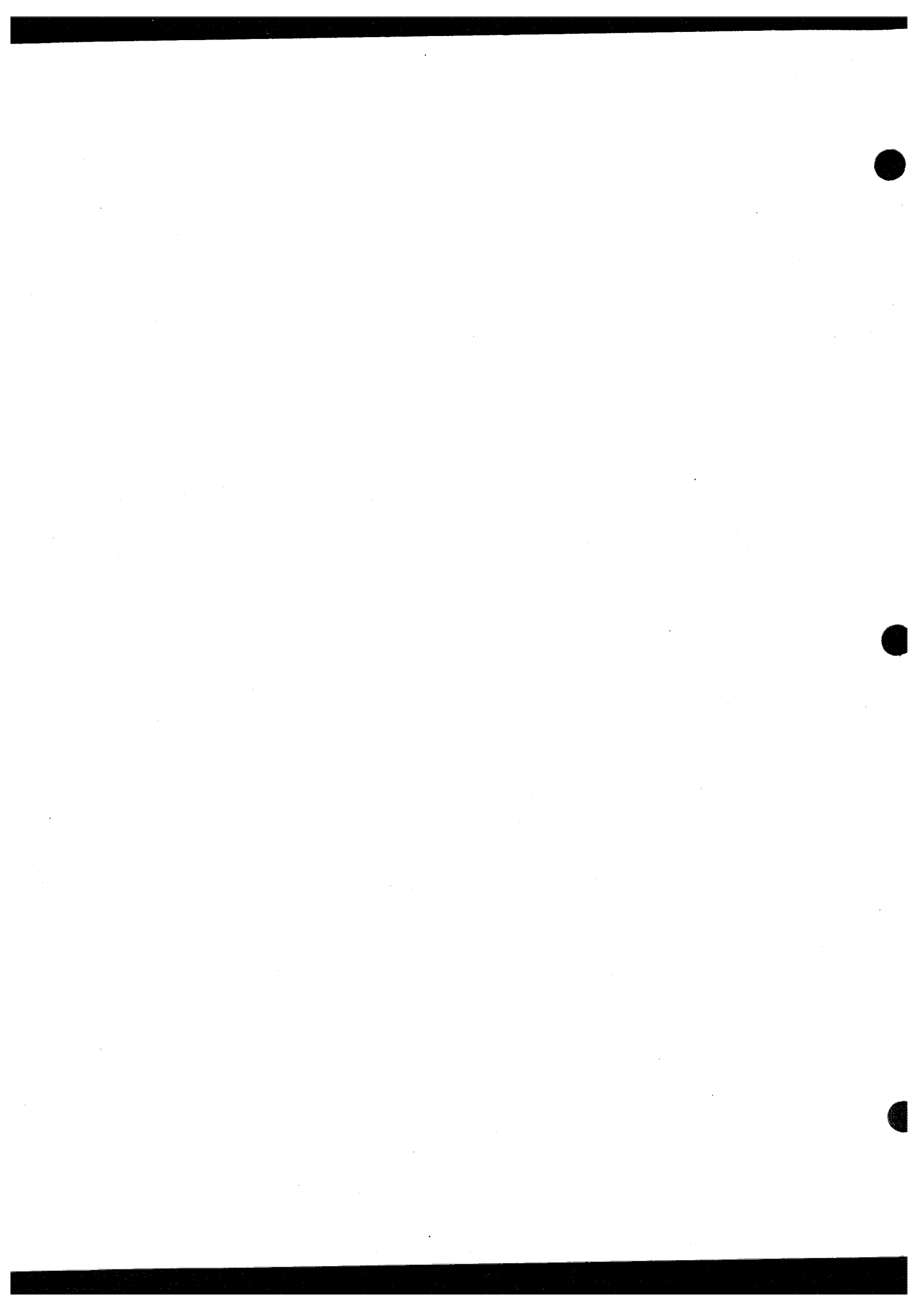
**HDR**

HDR Engineering, Inc.  
560 Mission Street, Suite 900  
San Francisco, CA 94105

March 11, 2013

Exhibit 66

**Exh. 66**



# Operating Ratio Study

HDR Engineering, Inc. (HDR) conducted a survey of local agencies and prepared an analysis of operating ratios that are comparable to those proposed for the City and County of San Francisco (City) by Recology. The operating ratio determines the level of profit that a service provider receives. Profit is determined by dividing the annual cost of operations by the operating ratio and then subtracting annual costs of operations from the dividend. A 90 percent operating ratio would yield an 11.1 percent profit. The formula for calculating the operating ratio is:

$$(\text{Total annual cost of operations} \div \text{Operating Ratio}) - \text{Total cost of operations} = \text{Profit}$$

We contacted over 20 public agencies to determine whether they use an operating ratio in managing their collection service providers. Many jurisdictions, including Oakland, Hayward and Fremont, use alternative compensation methods such as escalating rates based on the Consumer Price Index (CPI) or the Refuse Rate Index (which is a combination of five indices including, labor, fuel, and CPI) to revise the rates on a periodic basis.

HDR identified the following Bay Area communities that use an operating ratio in managing their contractors. Table 1 lists each jurisdiction, the population, service providers and operating ratios. This list is not comprehensive of all Bay Area communities that use an operating ratio, but provides a representative range of services, service providers and communities.

**Table 1 List of Comparable Jurisdictions**

Jurisdiction	Population	Service Providers	Operating Ratio
Alameda	74,774	Alameda County Industries	90
Central Contra Costa Solid Waste Authority	342,600	USA Waste of California (Waste Management)	89 <sup>1</sup>
Danville		Allied Waste Systems, Inc. (Republic)	
Lafayette			
Moraga			
Orinda			
Walnut Creek			
Contra Costa County			
El Cerrito	23,934	East Bay Sanitary Company, Inc.	90.5
Fairfax	7,520	Marin Sanitary Service, Inc.	90.5
Livermore	82,039	Livermore Sanitation, Inc.	90
Napa	77,867	Napa Recycling and Waste Services	97.1 <sup>2</sup>
Pacifica	37,691	Recology of the Coast	90
Pleasanton	71,215	Pleasanton Garbage Service	86.2-92.6 <sup>3</sup>
San Anselmo	12,468	Marin Sanitary Service, Inc.	90.5
San Jose (commercial)	967,487	Allied Waste Services of North America (Republic)	85.29
San Rafael	58,313	Marin Sanitary Service, Inc.	90.5
South Bayside Waste Management Authority	377,025	Recology San Mateo	90.5
Atherton			
Belmont			
Burlingame			
East Palo Alto			

## Operating Ratio Study

Jurisdiction	Population	Service Providers	Operating Ratio
Foster City Hillsborough Menlo Park Redwood City San Carlos San Mateo San Mateo County West Bay Sanitary District			
Sunnyvale	131,760	Bay Counties Waste Services	91.5
Union City	70,436	BFI Waste Systems of North America, Inc.(Republic)	86.12 (trash and recycling) 93 (organics)
<b>Mean (average)</b>			<b>90.3</b>
<b>Median (mid-point)</b>			<b>90.5</b>

<sup>1</sup>The Central Contra Costa Solid Waste Authority agreement with Waste Management provides for an operating ratio of 89. Its agreement with Allied provides for an operating ratio of 86.5% in Rate Year 1, 87.5% in Rate Year 2, 88% in Rate Year 3, and 89% in Rate Year 4 and thereafter for the term of the agreement.

<sup>2</sup>Only 3 percent profit is guaranteed. The contract also includes a significant diversion incentive.

<sup>3</sup>Contract allows for a range of between 8 and 16% profit.

Recology operates under a permit system in San Francisco. We obtained collection agreements from each of the other jurisdictions and reviewed each agreement to identify the major elements. Each of these collection agreements is an exclusive franchise agreement that grants rights to a collector to provide the services specified. Table 2 lists each jurisdiction and describes the term of the agreement (if applicable), items regulated, and type of recycling programs provided.

**Table 2 Franchise Agreements**

Jurisdiction	Operating Ratio	Term	Items Regulated	Type of Recycling Programs
Alameda	90	10 years, extended to 20	Residential and commercial trash collection, recycling, and yard trimmings and food scraps. Compactor and debris boxes for trash. C&D and commercial recycling is open.	Residential and commercial – weekly commingled recycling, yard trimmings and food scraps.
Central Contra Costa Solid Waste Authority	89	10 years	WM – Residential recycling and yard trimmings and food scraps collection. Allied – Residential, commercial, compactor and debris box trash collection, commercial food scraps collection. C&D and commercial recycling is open.	Residential – weekly commingled recycling, yard trimmings and food scraps.  Commercial – food scrap collection included with trash service.

## Operating Ratio Study

Jurisdiction	Operating Ratio	Term	Items Regulated	Type of Recycling Programs
El Cerrito	90.5	12, extended to 28	Residential and commercial trash collection, residential and commercial yard trimmings and food scraps collection.  Recycling is provided by City crews.	Residential and commercial – weekly yard trimmings and food scraps.
Fairfax	90.5	10 years	Residential and commercial, trash, recycling, yard trimmings and food scrap collection.	Residential – weekly dual stream recycling and yard trimmings and food scrap collection, annual household hazardous waste collection, Multifamily and commercial - recycling and yard trimmings. Multifamily - food scrap pilot.
Livermore	90	12 years	Residential and commercial, trash, recycling, yard trimmings and food scrap collection. C&D and commercial recycling is open.	Residential and commercial – weekly commingled recycling, yard trimmings and food scraps
Napa	97.1	10 years	Residential and commercial trash, recycling and yard trimmings collection.  Commercial - food scraps.	Residential and commercial – weekly commingled recycling, yard trimmings. Commercial - food scraps.
Pacifica	90	8 years	Residential, commercial, compactor, and debris box trash, recycling, yard trimmings and food scraps and C&D collection.	Residential – biweekly collection of commingled recycling and yard trimmings and food scraps collection. Commercial – commingled recycling and fee for service food scraps collection.
Pleasanton	86.2-92.6	30 years	Residential trash, recycling, and yard trimmings and food scraps collection. Commercial trash and recycling collection. C&D collection.	Residential – weekly commingled recycling and yard trimmings and food scrap collection.  Commercial – fee for service recycling.

## Operating Ratio Study

Jurisdiction	Operating Ratio	Term	Items Regulated	Type of Recycling Programs
San Anselmo	90.5	10 years	Residential and commercial trash, recycling and yard trimmings and food scrap collection. C&D is open.	Residential – weekly dual stream recycling and yard trimmings and food scrap collection.  Commercial – recycling.
San Francisco	89/91	Residential "evergreen" Commercial "evergreen"	Residential trash collection, recycling, yard trimmings and food scraps. C&D is open.	Residential – weekly commingled recycling, yard trimmings and food scraps.
San Jose (commercial)	85.29	15 years	Commercial trash, recycling and food scraps collection.	Wet/dry collection and diversion program.
San Rafael	90.5	20 years	Residential and commercial, trash, recycling, yard trimmings and food scrap collection.	Residential – weekly dual stream recycling and yard trimmings and food scrap collection. Multifamily and commercial – recycling.
South Bayside Waste Management Authority	91	10 years	Residential, commercial, compactor, and debris box trash collection, residential recycling and yard trimmings collection. C&D and commercial recycling is open.	Residential – weekly collection of commingled recycling, yard trimmings and food scraps collection. Commercial – recycling and yard trimmings and food scraps collection
Sunnyvale	91.5	27 years	Residential, commercial, compactor, and debris box trash collection, residential recycling and yard trimmings collection. C&D and commercial recycling is open.	Residential – weekly collection of dual stream recycling, yard trimmings collection.  Commercial – recycling.
Union City	86.12 (trash and recycling) 93 (organics)	10 years	Residential and commercial trash and yard trimmings and food scraps collection. Commercial recycling collected in dumpsters. C&D is open. Residential and commercial recycling in carts is provided through a separate contractor.	Residential and commercial - yard trimmings and food scraps collection.  Commercial recycling in bins.

### Rate Review Process

Most of the jurisdictions surveyed manage their service providers through a cost plus contract where the service provider is allowed a specified profit on all allowable costs. Many



of the jurisdictions surveyed conduct a full rate review periodically (such as every three years) and then escalate compensation based on a CPI adjustment in between rate review years. Pleasanton and Sunnyvale provide for an annual rate application at the request of the service provider. The South Bayside Waste Management Authority contracts identify the operating costs and a 90.5 operating ratio in the base year (as proposed by the service provider). Compensation is adjusted annually based on specified indices (labor, fuel, etc.) and other specified adjustments (taxes, depreciation). Table 3 lists the frequencies of the detailed rate reviews for each jurisdiction surveyed.

**Table 3 Frequency of Detailed Rate Reviews**

Jurisdiction	Operating Ratio	Frequency of Detailed Rate Reviews	Indexing Between Rate Years
Alameda	90	Every 3 years	Yes
Central Contra Costa Solid Waste Authority	89	Every 4 years	Yes
El Cerrito	90.5	Every 3 years or if actual costs exceed indexed costs by 5% or more	Yes
Fairfax	90.5	Every 3 years	Yes
Livermore	90	Every 4 years, on request	Yes
Napa	97.1	Every 3 years	Yes
Pacifica	90	Every 3 years	Yes
Pleasanton	84-92	Annually on request	No
San Anselmo	90.5	Every 3 years	Yes
San Francisco	89/91	On request, averaging every 5 years	Yes
San Jose (commercial)	85.29	At Rate Year 3 and at 7 and 12 on request	Yes
San Rafael	90.5	Every 3 years	Yes
South Bayside Waste Management Authority	90.5	Annual adjustment based on indices	Not Applicable – annual adjustment is based on indices
Sunnyvale	91.5	Annually, on request	No
Union City	86.12 (trash and recycling) 93 (organics)	Every 3 years	Yes

**Disallowed Costs**

Most of the jurisdictions surveyed do not allow their service providers to include charitable or political contributions or taxes in their costs for purposes of determining profit. Some jurisdictions, including Alameda, Central Contra Costa County Solid Waste Authority, and Sunnyvale have a longer list of disallowed costs each of which includes:

- Labor and equipment costs for personnel and vehicles that are not specified;

## Operating Ratio Study

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- Payments to directors and/or owners;
- Promotional advertising, entertainment and travel expenses, unless authorized in advance;
- Payments to repair damage to property of third parties;
- Fines for penalties of any nature;
- Liquidated damages;
- Depreciation or interest expense;
- Attorney's fees;
- Goodwill;
- Unreasonable profit sharing distributions; and
- Replacement costs for carts, bins, or debris boxes.

### Pass-Through Costs

Pass-through costs are those allowable costs for which no profit is allowed. Pass-through costs are not included when calculating a contractor's operating ratio. None of the jurisdictions surveyed allow their contractors to earn a profit on transfer costs, disposal costs, or franchise fees. Other pass-through costs used by some of jurisdictions surveyed include bad debt expenses, city surcharges, interest, lease costs, and regulatory expenses.

### Diversion Incentives

Diversion incentives or penalties are not prevalent among the jurisdictions surveyed. However, the City of Napa includes significant diversion incentives and disincentives in its contract with Napa Recycling and Waste Services. Only 3 percent profit is guaranteed to the franchisee.

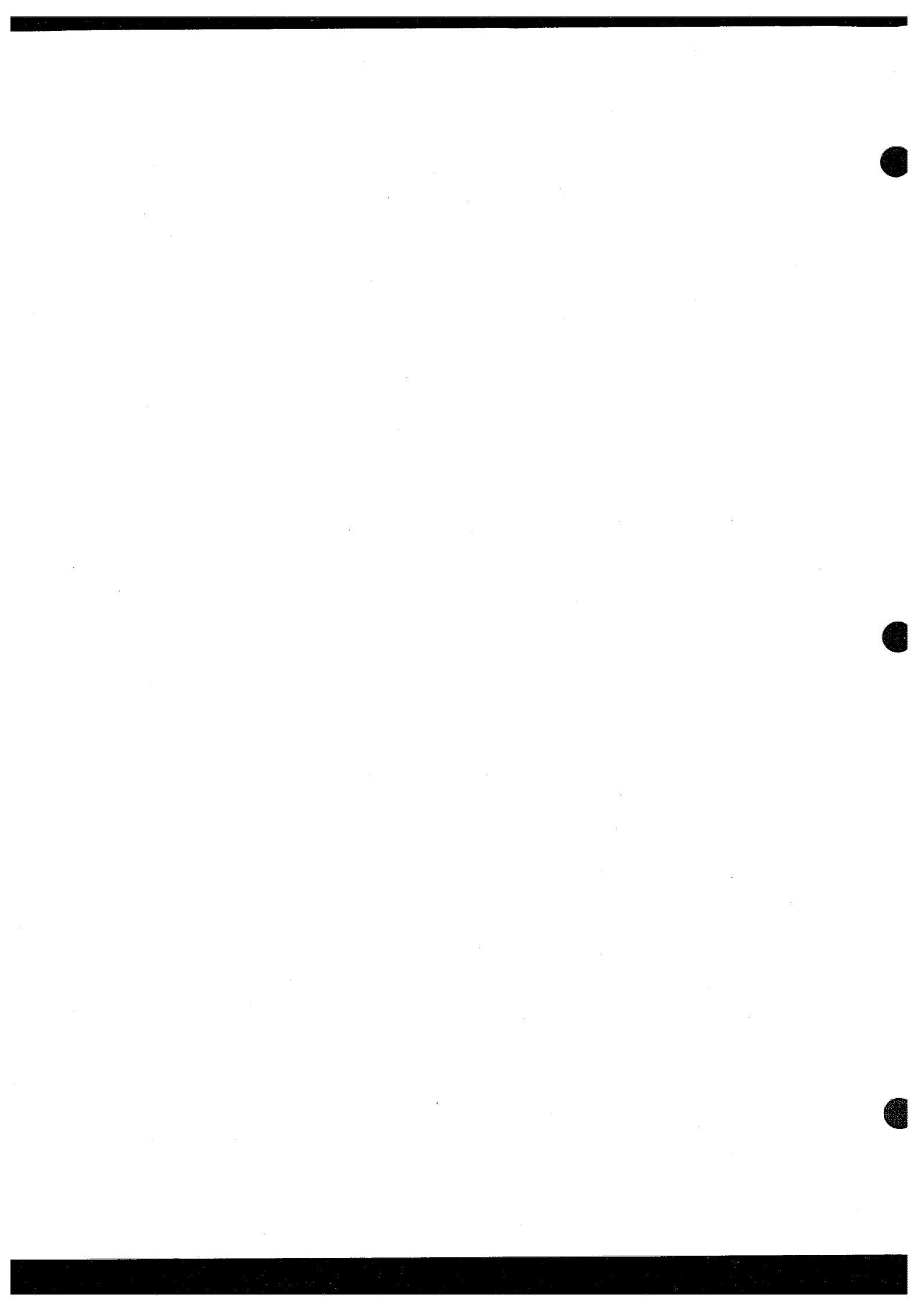
The South Bay Waste Management Authority provides performance incentives for achieving certain levels of diversion and performance disincentives for not meeting minimum thresholds. The Central Contra Costa Solid Waste Authority can assess liquidated damages if the contractor fails to achieve the minimum diversion goal.

### Transfer Station Costs

None of the jurisdictions surveyed provide a separate and lower operating ratio for transfer station costs. In fact, where the services are provided by a third party, these costs are considered a pass-through and no profit is allowed. We could find no examples of Bay Area jurisdictions that provide separate and lower operating ratios for transfer station costs.

**Conclusion**

Among the jurisdictions surveyed, the operating ratios have been established based on negotiations, competitive procurements, or traditional rates of return experienced by the service providers. Recology's current operating ratio in San Francisco of 89% (if goals met) and 91% (if not) falls within the range of other Bay Area communities that use operating ratios.



**Legg, Douglas**

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**From:** Fuchs, Kurt [kurt.fuchs@sfgov.org]  
**Sent:** Wednesday, February 06, 2013 2:33 PM  
**To:** Allersma, Michelle  
**Cc:** Legg, Douglas  
**Subject:** RE: CPC development pipeline  
**Attachments:** Development Pipeline February 2013 wo Tax Calculations.xlsx

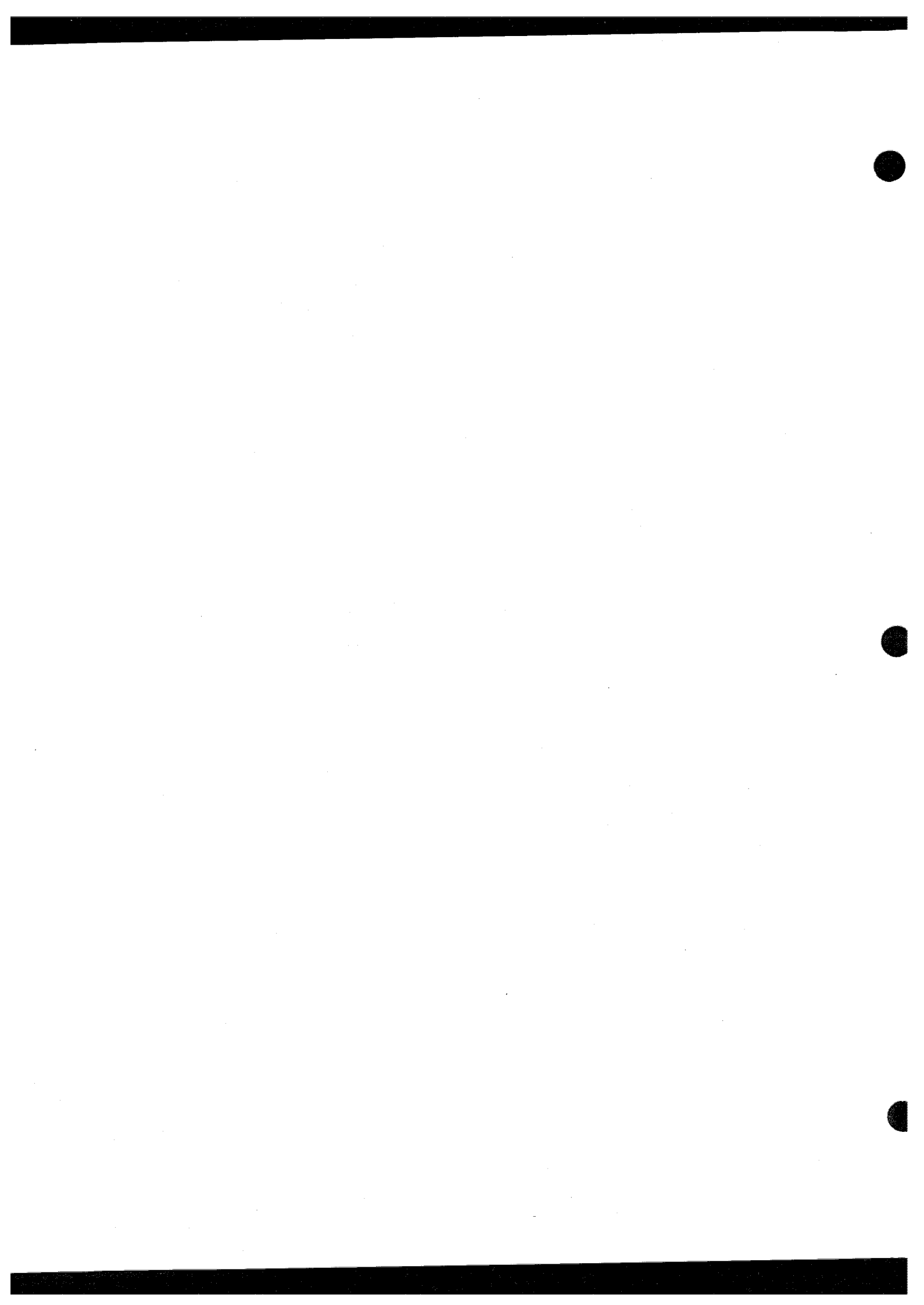
Hi Douglas –

Please find attached a summary of residential and commercial projects in the development pipeline, including those under construction. As you will see, there are nearly 5,000 residential units and 2.85M sq.ft. of commercial space under construction with estimated completion within the next few years.

The data source is the SF Business Times annual "Structures" publication, which culls data from the Planning Department as well as other sources.

Let me know if you have any questions or need anything else on this matter. Thanks.

Kurt Fuchs  
City and County of San Francisco  
Controller's Office, Budget and Analysis Division  
City Hall, Room 312  
San Francisco, CA 94102  
415-554-6562



Residential Development Pipeline - December 2012

#	Site	Status of Units	Number	Name	Type	Market Position	Earliest Completion	Revised Estimated Completion Date	Developer	Notes	Additional Source	Date Updated
1	435 China Basin St	UC	329	The Madrone	for-sale	market rate	2012		Boys Development			
2	2235 Third St.	UC	196	Potrero Launch	rental	market rate	2012		City of San Francisco			
3	220 Golden Gate Ave.	UC	174	220 Golden Gate Ave.	rental	affordable	2012		THDC	Proposed to preserve and renovate two existing buildings and construct three new buildings which would include 196 residential units, 16,395 s.f. of retail space, and a community room.		
4	701-725 Golden Gate	UC	100	Mary Helen Rodgers Senior Ctr	rental	affordable	2012		UrbanCore/Chinatown Community Development Center			
5	55 Ninth St.	UC	273	55 Ninth St.	rental	market rate	2014		Avaya Bay			
6	1401 Market St.	UC	754	Crescent Heights	rental	market rate	2013		Trinity Properties	Mixed use projects consists of two towers with 719 dwelling units, 19,000 square feet of commercial space, and 688 parking spaces. Report projected plans include development of three towers with up to 1,900 units (1,100 studios, 450 s.f., and 800 one-bedrooms, ~600 s.f., units); Ph		
7	1169 Market St.	UC	417	Trinity Plaza, phase II	rental	market rate	2013		Urban Housing Group			
8	1155 4th St.	UC	147	Venue	rental	market rate	2013		Community Housing Partnership, Bridge Housing			
9	25 Essex St.	UC	120	Rene Cazenave Apartments	rental	affordable	2013		MacFarlane Partners			
10	1844 Market St.	UC	113	1844 Market St.	for-sale	market and affo	2013		John Stewart Co., Devine & Gong, Ridgepoint Non-Profit Housing Corp.			
11	227 West Point Road	UC	107	Hunters View Phase I	rental	affordable	2013		Chinatown Community Development Center			
12	150 Ohio, St.	UC	76	Valeris Commons	rental	affordable	2013		Mary Housing California, Providence Foundation of San Francisco			
13	6800 Third St.	UC	73	6800 Third St.	rental	affordable	2013		Bridge Group			
14	474 Valencia St.	UC	60	474 Valencia St.	rental	affordable	2013		Prado Group			
15	1266-70 9th Ave	UC	15	1266-70 9th Ave	for-sale	market rate	2013		Avant Housing	Started construction in June 2012. 3,000 sq ft, ground floor leased to Labourage		
16	280 Fifth St.	UC	154	280 Fifth St.	rental	market rate	2014		Essex Property Trust	Broke ground in May 2012. Base rental rates expected at \$2500 to \$4500/month with 15% BMF requirement. Unit sizes range from 405 sq ft		
17	900 Folsom St.	UC	282	900 Folsom St.	rental	market rate	2014		Essex Property Trust	Purchased from AVANT Housing, developer of 5th street project, which combined with this project will total 436 units catering to tech workers		
18	333 Harrison St.	UC	326	333 Harrison St.	rental	market rate	2014		Unified Foundation Trust	Proposed project includes 308 smaller residential units averaging \$50 s.f., and will include a park, decided by the City. This project is seeking H		
19	185 Channel St.	UC	315	185 Channel St.	rental	market rate	2014		Avant Housing	This is a mixed use project with 8,000 square feet of commercial space and 39 BMF units. Seeking HUD/FHA financing.		
20	1890 Mission St.	UC	194	Mission Gardens	for-sale	market rate	2014		Avant Housing			
21	1285 Sutter St.	UC	106	1285 Sutter St.	rental	market rate	2014		Growing Eden			
22	333 Fremont St.	UC	88	333 Fremont St.	for-sale	market rate	2014		CityCore			
23	2001 Market St.	UC	82	2001 Market St.	for-sale	market rate	2014		Prado Group	Anticipated construction in April 2012, ground floor will be Whole Foods, which will generate 40% of projected income for the property.		
24	401 Grove St.	UC	63	401 Grove St.	for-sale	market rate	2014		Pocket Development			
25	1998 Market St.	UC	98	1998 Market St.	for-sale	market rate	2014		Carson Johnson Urban Funds and Brian Sises office to open in May 2013, completions scheduled for end of 2013			
26	1800 Van Ness Ave.	UC	165	Hunters Point Shipyard phase both	for-sale	market and affo	2014		Oyster Development	sales office to open in March 2013, completions scheduled for end of 2013		
27	Hunters Point	A	7,200	Hunters Point Shipyard phase both	for-sale	market rate	2014		Lennox/BVHP Partners Community Development LLC			
28	1415 Mission St.	A	1,600	1415 Mission St.	for-sale	market rate	2014		Martin Building co	Fortress investment group LLC/Slater M Master redevelopment program for 152-acre site. Proposed project includes 5,700 for sale and rental units at market rate, 230,000 s.f. of new		
29	150 Executive Park	A	1,250	150 Executive Park	for-sale	market rate	2014		Universal Pargason Corp			
30	Schlegel Lock	A	1,000	Schlegel Lock	for-sale	market and affo	2014		Trinity Properties			
31	1000 16th St.	A	467	Trinity Plaza	rental	market rate	2014		Yield Properties			
32	5 Thomas Mellon Cir	A	499	Daggett Place	rental	market rate	2014		Ardisbury			
33	801 Cassart Way	A	465	5 Thomas Mellon Circle	TBD	market rate	2014		Yield Properties			
34	375-389 Fremont St.	A	432	Cardstock Cove	for-sale	market rate	2014		TopVision			
35	340-350 Fremont St.	A	364	The Callifman	rental	market rate	2014		Oliver McKillian			
36	55 Laguna St.	A	360	340-350 Fremont St.	rental	market rate	2014		Ardisbury			
37	425 First St.	A	299	Mission Bay Block 5, 11	rental	market rate	2014		Wood Partners	Demolition of a factory. Proposed 40-story tower with 332 apartment units and 332 below-grade parking spaces. The site is being marketed to		
38	Mission Bay	A	257	One Rincon, Phase 2	for-sale	market rate	2014		Principal global investors			
39	1390 Market St.	A	300	Mission Bay, Block 13	for-sale	market rate	2014		Equity Residential	Principle bought the tower from CBRE Investors, which had foreclosed on the property. The original One Rincon Hill developer, Michael Kro;		
40	45 Loring St.	A	227	Fox Plaza	for-sale	market rate	2014		Bosa			
41	555 Fulton St.	A	136	45 Loring St.	for-sale	market rate	2014		Ardisbury/Pradale Development			
42	2665 Bush St.	A	135	800 Brotherhood Way	for-sale	market rate	2014		Ardisbury/Pradale Development			
43	8 Washington St.	A	134	555 Fulton St.	for-sale	market rate	2014		Mission Development Group			
44	340 Berry St.	A	129	2665 Bush St.	for-sale	market rate	2014		Henry Wong			
45	5800 Third St.	A	121	8 Washington St.	for-sale	market rate	2014		2665 Bush St. LLC			
46	430 Main St.	A	113	5800 Third St. Phase 3	for-sale	market and affo	2014		Urban Core LLC			
47	5900 Third St.	A	102	5900 Third St. Phase 2	rental	affordable	2014		BVHP Senior Services Inc.			
48	235 Broadway	A	74	430 Main St.	rental	affordable	2014		Portland Pacific			
49	800 Presidio Ave.	A	70	235 Broadway	rental	affordable	2014		Holiday Development			
50	325 Fremont St.	A	69	800 Presidio Ave	for-sale	market rate	2014		Chinatown Community Development Center			
51	1581 Bush St.	A	69	325 Fremont St.	for-sale	market rate	2014		Equity Community Builders			
52	401 Grove St.	A	63	1581 Bush St.	for-sale	market rate	2014		Crescent Heights			
53	5020 Mission St.	A	61	401 Grove St.	for-sale	market rate	2014		Village Properties			
54	Treasure Island	A	8,000	5020 Mission St.	rental	market rate	2014		Pocket Development			
55	72 Townsend St.	A	74	Treasure Island	rental	market and affo	2015		5050 Dev LLC			
56	Hunters Point	A	12,100	Hunters Point Shipyard phase	rental	market and affo	2015		Treasure Island Community Development	Revised plans call for 6,000 units, approximately 75 percent will be rental, many in high-rise structures, 235,000 s.f. of commercial space, a 4		
57	168 Eddy St.	A	150	168 Eddy St.	rental	affordable	2016		Simon			
58	227 West Point Road	A	700	Hunters View, Phase 2, 3	rental	affordable	2016		Lennox/BVHP Partners Community Development LLC			
59	1180 Fourth St.	PDC	150	1180 Fourth St.	rental	affordable	2015/17		John Stewart Co., Devine & Gong, Ridgepoint Non-Profit Housing Corp.			
60	217 Eddy St.	PDC	105	Franciscan Towers	rental	affordable	2014		Meroy Housing			
61	1100 Ocean Ave.	PDC	71	Franciscan Towers	rental	affordable	2014		THDC			
62	Beale and Folsom str	PDC	557	Beale and Folsom streets	rental	affordable	2014		Meroy Housing			
63	350 8th St.	PDC	416	350 8th St.	rental	market and affo	2015		Meroy Housing			
64	417 Fajana St	PDC	350	417 Fajana St.	rental	market rate	2015		Gold, Meroy Housing			
65	800 Indiana St.	PDC	350	800 Indiana St.	for-sale	market rate	2015		Archstone			
66	1689 Pine St.	PDC	282	1689 Pine St.	rental	market rate	2015		Fritz Realty			
67	706 Mission St.	PDC	220	706 Mission St.	TBD	market rate	2015		Archstone/Build Inc.			
68	2121 Third St.	PDC	200	706 Mission St	for-sale	market rate	2015		Oyster Development			
69	2501 Sutter St.	PDC	196	2121 Third St.	TBD	market rate	2015		JMA Ventures/Millennium			
70	Oak and Octavia stre	PDC	182	Watside Court	rental	market and affo	2015		Walden			
71	1321 Mission St.	PDC	180	Parcel P - Market Octavia	rental	market rate	2015		UnderCover/TMS			
72	101 Polk St.	PDC	163	Parcel P - Market Octavia	rental	market rate	2015		Avaxon Bay/Build Inc.			
73	75 Howard St.	PDC	160	101 Polk St.	rental	market rate	2015		SmartSpace (Patrick Kennedy)			
74	55 Laguna St.	PDC	110	75 Howard St.	TBD	market rate	2015		Emerald Fund			
75	1239 Turk St.	PDC	98	55 Laguna St.	rental	affordable	2015		Paramount			
				Rosa Parks II	rental	affordable	2015		Meroy Housing			

76	2558 Mission St.	PDC	95	2558 Mission St.	for-sale	market rate	2015	Oyster Development
77	121 Golden Gate Ave.	PDC	90	St. Anthony St. Housing	rental	affordable	2015	Mercy Housing
78	200 Sixth St.	PDC	67	200 Sixth St.	rental	affordable	2015	Mercy Housing
79	Fifth and Mission streets	PDC	700	Fifth and Mission streets	rental	market rate	2016	Forest City
80	Mission Rock SWL Z2	PDC	850	Mission Rock SWL Z27	TBD	market rate	2016	SF Giants, Cordish Co.
81	100 Van Ness Ave.	PDC	400	100 Van Ness Ave.	for-sale	market rate	2016	Chic Center Commons
82	1533 Pine St.	PDC	123	Tower at Nob Hill	for-sale	market rate	2016	Turnark Cos.
83	477 Of Farrell St.	PDC	101	477 Of Farrell St.	rental	affordable	2016	SXS Investments
84	181 Fremont St.	PDC	80	181 Fremont St.	TBD	market rate	2016	Prado Group
85	2130 Post St.	PDC	71	2130 Post St.	TBD	market rate	2016	Crescent Heights
86	524 Howard	PDC	300	524 Howard	for-sale	market rate	2017	TND, Marozor Development Inc
87	1400 Mission St.	PDC	197	1400 Mission St.	rental	affordable	2017	TND, Marozor Development Inc
88	909-921 Howard St.	PDC	150	909-921 Howard St.	rental	affordable	2017	TND, Marozor Development Inc
89	1035-1040 Mission St.	PDC	100	1035-1040 Mission St.	rental	affordable	2017	TND, Marozor Development Inc
90	1654 Sunnyside Ave.	PDC	1,700	1654 Sunnyside Ave.	rental	market and affo	2018	Mercy Housing/Related Co.s
91	1095 Connecticut St.	PDC	101	Portero Terrace	TBD	market rate	2016	Bridge Housing
92	645 Texas	PDC	101	Portero Terrace	TBD	market rate	2016	Turnark Cos.
93	1554 Market Street	PDC	110	Portero Terrace	TBD	market rate	2016	Turnark Cos.
94	346 Portero	PDC	123	Portero Terrace	TBD	market rate	2016	Turnark Cos.
95	SOMA undesignated for	PDC	120	Portero Terrace	TBD	market rate	2016	Turnark Cos.

Sub-Total - UC 4,777 units  
 Total 54,818 units

A=Approved  
 UC=Under construction  
 PDC=Planning, Design or Concept phase

Sources: San Francisco Business Times, June 2012; Controller's Office, July 2012  
 C:\Users\rdm\Documents\rdm\Documents\Temporary Internet Files\Comcast\Outlook\7D5022W\Development Pipeline February 2013 w\ Tax Calculations\Map\Development Summary 2012

Updated 11/30/2012

<http://www.bizjournals.com/sanfrancisco/datacenter/san-francisco-structures-map-2012.html>

To DO:  
 Insert column for APN  
 Current AV  
 Prior Sale  
 Estimated Completed Value  
 Incremental Value (calculated)  
 create pivot table

This proposed project includes 875 rental units, 240,000 s.f. of retail, 2,650 parking spaces, 1.0 million s.f. of office space, 181,000 s.f. of office space.  
<http://www.bizjournals.com/sanfrancisco/print-edition/2012/11/30/turnark-projects-5-condo-projects.html>  
<http://www.bizjournals.com/sanfrancisco/print-edition/2012/11/30/turnark-projects-5-condo-projects.html>  
<http://www.bizjournals.com/sanfrancisco/print-edition/2012/11/30/turnark-projects-5-condo-projects.html>

<http://www.bizjournals.com/sanfrancisco/print-edition/2012/11/30/turnark-projects-5-condo-projects.html>  
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<http://www.bizjournals.com/sanfrancisco/print-edition/2012/11/30/turnark-projects-5-condo-projects.html>



quare feet ground floor retail, 1,967 square feet day-care, 157 parking spaces, and 50 bicycle spaces. 39 units are BMR. Seeking HUD FHA financing.

ily \$200M project. O. \$267M unit  
ase) of the project, with 440 units, was completed in early 2010. Plans also include 51,880 s.f. of retail space, and 1,450 parking spaces. Of the total units in Phases II and III, 230 will be below market rate. Development will likely be developer financed.

1 to 1735 sq ft. This project will be 215,300 square feet in two 9-story buildings. It includes 5,750 square feet of retail space and 100 parking spaces.  
2 This mixed-use project will be a 396,000-square-foot, 9-story building with 220 parking spaces.  
3 HUD FHA financing.

7 retail, and 80,600 s.f. of new office. It is estimated that half of the new units will be rentals. Draft EIR released May 12, 2010. Project approved May 2011. Long-term buildout

302.  
tail, a 2,500 s.f. community center, a 6,500 s.f. park, and 499 parking spaces.

7y the developer. The developer was granted a three-year entitlement extension.

are of Urban West Associates has been retained as fee developer of the second tower. development team is aiming to start construction by this summer, and that the units will likely be rented out rather than sold as condos. Solomon Cornwall Buentz is the architect of the project, which will be built by Webcor.

100-slip marina, 500 hotel rooms, and 300 acres of open space. Approved June 2011

assessment phase and entitlements are expected before the end of 2012.

at space, and 8.7 acres of public open space. Project will likely be revised during EIA stage.

Commercial Development Pipeline - December 2012

#	Site	Status	Size (sq.ft.)	Name	Type	Earliest Completion	Developer	Notes
1	425 Mission St.	UC	1,000,000	Transbay Transit Center	Transit	2017	Transbay Joint Powers Authority	
2	4th Street at 16th Street	UC	869,000	Benhoff UCSF Women children and	Hospital	2014	UCSF	
3	1001 Potrero Ave.	UC	460,000	S.F. General hospital	Hospital	2015	S.F. Department of Public Health	
4	Pier 15	UC	230,000	Exploratorium	Museum	2013	Exploratorium	
5	808 Kearney St.	UC	187,000	City College of San Francisco Chinatown	Education	2012	City College of San Francisco	
6	Pier 27	UC	70,000	Cruise Terminal	Cruise Terminal	2014	Port of SF	
7	Fell and Franklin streets	UC	35,000	SFJazz	Education	2012	SFJazz	
8	Hunters Point	A	1,450,000	Hunter's Point biotech/Life science	Office/R&D	2016	TBD	
9	Van Ness and Geary Street	A	1,164,000	Cathedral Hill hospital	Hospital	2016	California Pacific Medical	
10	Innes Avenue and Donahue	A	935,000	Hunter's Point offices	Office	2016	TBD	
11	701 16th St.	A	480,000	Mission Bay Block 40	Office	2014	Farallon	
12	222 Second St.	A	450,000	222 Second St.	Office	2014	Tishman Speyer	
13	350 Bush St.	A	435,000	Exchange Place	Office	2014	Lincoln Property Co.	
14	505 Howard St.	A	355,000	Foundry Square III	Office	2015	Tishman Speyer	
15	535 Mission St.	A	354,000	535 Mission St.	Office	2014	Beacon Capital Partners LLC	Currently surface parking lot; the last phase of Foundry Square Project. Tishman reportedly to
16	350 Mission St.	A	340,000	350 Mission St.	Office	2013	GLL	
17	650 Terry, Francisco Blvd.	A	330,000	650 Terry, Francisco Blvd.	Life Science	2015	TBD	
18	600 Terry, Francisco Blvd.	A	300,000	600 Terry, Francisco Blvd.	Life Science	2015	TBD	
19	935-965 Market St.	A	250,000	CityPlace	Retail	2015	Urban Realty Co. Inc, Comm JC Penny may anchor the project. Project will include 45,000 square foot floor plates with 14-	
20	1600 Owens St.	A	226,000	1600 Owens St.	Life Science	2016	TBD	
21	1515 Third St.	A	220,000	1515 Third St.	Life Science	2016	TBD	
22	1455 Third St.	A	200,000	SFMOMA Addition	Museum	2016	TBD	
23	151 Third St.	A	200,000	1455 Third St.	Life Science	2015	SFMOMA	
24	100 California St.	A	68,800	100 California St.	Life Science	2016	TBD	
25	188 Spear St.	A	67,000	188 Spear St.	Office - Expansi	2015	Broadway Partners	4-story vertical addition to existing 150k SF building
26	1450 Owens St.	A	59,000	1450 Owens St.	Life Science	2016	Shorenstein	
27	500 Pine St.	A	44,500	500 Pine St.	Office	2015	TBD	
28	22th and Illinois Streets	PDC	2,500,000	Pier 70 phase II	Office/R&D	2025	Lincoln Property Co	
29	First and Mission Streets	PDC	1,400,000	Transbay Tower	Office	2025	Forest City	
30	Mission Rock St. and Terry	PDC	1,825,000	Mission Rock Seawall lot 337 and Pier	Office/Mixed Us	2017	Hines	
31	Fifth and Mission streets	PDC	1,300,000	The Hub	Office, retail, ei	2016	S.F. Giants, the Cordish Cos.	
32	181 Fremont St.	PDC	400,000	181 Fremont St.	Office, arts, hot	2015	Forest City	
33	20th and Illinois streets	PDC	250,000	Pier 70 phase I	office, housing	2016	SKS Investments	
34	2121 Third St.	PDC	200,000	2121 Third St.	office, Industria	2017	Orton Development	
35	1901 Cesar Chavez St.	PDC	120,000	Home Depot	retail	2016	Kaiser Permanente	
36	3711 19th Ave.	PDC	105,000	Parklanced	office, educator	2014	Home Depot	
37	88 Fifth St.	PDC	100,000	San Francisco Museum and Historical	museum	2027	Rockpoint/Stellar Management	The parcel is now used by the general contractor Webcor as staging for its construction of t
38	706 Mission St.	PDC	40,000	Mexican Museum	museum	2017	San Francisco Museum and Historical Society	
39	Pier 30-32	PDC	200,000	Warrior's Arena	recreation	2018	Mexican Museum Warriors	

Sub-Total - UC 2,851,000 sq.ft.  
 Total ##### sq.ft.

A=Approved  
 UC=Under construction  
 PDC=Planning, Design or Concept phase

Incremental Value Added  
 Net tax increment to GF

Sources: San Francisco Business Times, June 2012; Controller's Office, July 2012.  
 C:\Users\delgaj\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.Outlook\TZD5QZWK\Development Pipeline February 2013 w/o Tax Calculators.xlsx\Commercial Summary 2012

to pay \$50M for development site (entitled). It will be built by Webcor Builders and is a joint venture between Wilson Meany Sullivan and Stockbridge Real Estate Funds.

foot floor-to-ceiling clearances, and parking. Sales price for the entitled parcel was reportedly north of \$20 million.

The San Francisco General Hospital. Until 2009, the 50,000-square-foot building on the property was a printing facility for the Fang family, which owned the Independent and Examiner newspapers.

RSS/RGG  
Apartment

No.	# of Units	\$/Unit		Monthly Charges				Capped Monthly Rates			
		Unit Charge	Service Rate with Unit Charge	Primary Charges Only		Monthly Charges		Primary Charges Only		Monthly Charges	
				Variance \$	Variance %	Cap Credit	New Rate with Cap	Ver. \$	Ver. %		
461260270	18	\$80.00	\$749.47	\$191.58	34.34%	(\$2.11)	\$887.38	\$138.47	25.00%		
471280871	86	\$80.00	\$3,525.67	\$117.02	35.15%	(\$264.66)	\$3,260.81	\$652.16	25.00%		
472340972	15	\$75.00	\$876.88	\$160.79	39.48%	(\$56.82)	\$619.88	\$123.98	25.00%		
473598073	8	\$90.00	\$340.48	\$62.54	37.32%	(\$30.55)	\$309.94	\$81.99	25.00%		
478040874	28	\$130.00	\$1,895.18	\$303.81	21.84%	-	\$1,895.18	\$303.81	21.84%		
478042575	28	\$140.00	\$1,705.19	\$313.81	22.58%	-	\$1,705.19	\$313.81	22.58%		
478047476	28	\$130.00	\$1,173.48	\$130.00	12.48%	-	\$1,173.48	\$130.00	12.48%		
478048277	53	\$285.00	\$2,876.81	\$285.00	10.99%	-	\$2,876.81	\$285.00	10.99%		
486313078	104	\$520.00	\$3,170.31	\$1,048.96	48.45%	(\$518.62)	\$2,851.89	\$530.34	25.00%		
487674479	8	\$40.00	\$266.11	\$102.81	82.20%	(\$61.49)	\$266.63	\$141.33	25.00%		
490677280	17	\$85.00	\$503.46	\$172.88	52.29%	(\$90.23)	\$413.25	\$92.85	25.00%		
491422281	11	\$55.00	\$641.94	\$120.21	29.04%	(\$26.14)	\$414.94	\$20.21	23.04%		
495086182	8	\$30.00	\$163.89	\$53.88	48.72%	(\$21.89)	\$132.00	\$27.11	25.00%		
495056183	42	\$210.00	\$1,249.46	\$422.96	51.18%	(\$218.34)	\$1,031.13	\$208.83	25.00%		
505492984	53	\$285.00	\$2,878.81	\$285.00	10.99%	-	\$2,878.81	\$285.00	10.99%		
515010785	18	\$80.00	\$900.25	\$204.81	29.41%	(\$30.70)	\$869.55	\$173.81	25.00%		
522534786	53	\$265.00	\$2,227.14	\$496.04	29.64%	(\$83.26)	\$1,743.88	\$434.78	25.00%		
522535487	28	\$130.00	\$1,173.48	\$130.00	12.48%	-	\$1,173.48	\$130.00	12.48%		
522539688	28	\$130.00	\$1,173.48	\$130.00	12.48%	-	\$1,173.48	\$130.00	12.48%		
522542089	28	\$130.00	\$1,173.48	\$130.00	12.48%	-	\$1,173.48	\$130.00	12.48%		
522543890	35	\$175.00	\$1,482.54	\$175.00	13.36%	-	\$1,482.54	\$175.00	13.36%		
522544691	53	\$265.00	\$3,278.23	\$518.60	18.85%	-	\$3,278.23	\$518.60	18.85%		
522545392	40	\$200.00	\$1,785.18	\$200.00	12.78%	-	\$1,785.18	\$200.00	12.78%		
522551193	64	\$320.00	\$2,814.00	\$810.82	30.49%	(\$110.02)	\$2,503.98	\$500.80	25.00%		
522552994	64	\$320.00	\$2,814.00	\$810.82	30.49%	(\$110.02)	\$2,503.98	\$500.80	25.00%		
522553795	64	\$320.00	\$2,814.00	\$810.82	30.49%	(\$110.02)	\$2,503.98	\$500.80	25.00%		
522561096	53	\$285.00	\$2,876.81	\$285.00	10.99%	-	\$2,876.81	\$285.00	10.99%		
522562897	53	\$285.00	\$2,876.81	\$285.00	10.99%	-	\$2,876.81	\$285.00	10.99%		
522567798	28	\$130.00	\$1,173.48	\$130.00	12.48%	-	\$1,173.48	\$130.00	12.48%		
522577699	28	\$130.00	\$1,287.58	\$244.13	23.40%	-	\$1,287.58	\$244.13	23.40%		
522579200	28	\$130.00	\$1,287.58	\$244.13	23.40%	-	\$1,287.58	\$244.13	23.40%		
522580001	28	\$130.00	\$1,287.58	\$244.13	23.40%	-	\$1,287.58	\$244.13	23.40%		
522582602	19	\$85.00	\$889.00	\$245.15	32.96%	(\$59.19)	\$639.81	\$185.98	25.00%		
522583403	35	\$175.00	\$1,704.03	\$312.75	22.48%	-	\$1,704.03	\$312.75	22.48%		
522587504	18	\$90.00	\$885.05	\$188.41	24.35%	-	\$885.05	\$188.41	24.35%		
522588305	35	\$175.00	\$330.83	\$330.83	23.78%	-	\$330.83	\$330.83	23.78%		
522589106	18	\$80.00	\$865.05	\$188.41	24.35%	-	\$865.05	\$188.41	24.35%		
522590907	18	\$90.00	\$888.33	\$190.88	27.41%	(\$16.78)	\$869.55	\$173.81	25.00%		
522591708	18	\$90.00	\$888.33	\$190.88	27.41%	(\$16.78)	\$869.55	\$173.81	25.00%		
522593309	8	\$45.00	\$443.17	\$95.35	27.41%	(\$6.38)	\$434.78	\$88.98	25.00%		
522595620	8	\$60.00	\$139.58	\$50.94	11.83%	(\$30.26)	\$103.31	\$20.66	25.00%		
528633111	35	\$175.00	\$1,482.54	\$175.00	13.36%	-	\$1,482.54	\$175.00	13.36%		
535481612	8	\$30.00	\$128.43	\$43.78	52.98%	(\$23.11)	\$103.31	\$20.88	25.00%		
538613113	10	\$50.00	\$448.48	\$118.88	35.96%	(\$36.23)	\$413.25	\$82.85	25.00%		
542246414	23	\$115.00	\$982.99	\$218.14	28.48%	(\$33.18)	\$929.81	\$185.98	25.00%		
543295015	8	\$40.00	\$343.05	\$95.10	38.35%	(\$33.11)	\$308.64	\$81.99	25.00%		
	113,929	\$666,787.60	\$4,081,246.80	\$1,253,783.43	33.64%	(\$387,783.64)	4,813,482.15	\$866,979.78	23.77%		

RSS/RGG

Apartment

Min. % - Over 10.0%  
Max % 75.0%

No.	Current Service Rate			Total	Current Rate New P with Charges to R & O	Gallons				Total	Recycling %	Recycling Discount	
	S	P				G	O	R	%			\$	
461260270	\$53.16	\$557.89		\$611.05	\$1,115.78	576.00	224.00	576.00	1,152.00	1,152.00	50.00%	40.00%	(\$446.31)
471280871	\$159.48	\$2,608.65		\$2,768.13	\$5,696.44	3,029.55	224.00	3,257.73	6,511.28	6,511.28	53.00%	43.00%	(\$2,410.77)
472340972	\$26.58	\$495.90		\$522.48	\$1,074.45	576.00	32.00	640.00	1,248.00	1,248.00	54.00%	44.00%	(\$472.76)
473508073	\$35.44	\$247.95		\$283.39	\$693.85	288.00	64.00	384.00	736.00	736.00	20.00%	11.00%	(\$323.16)
478040974		\$1,391.28		\$1,391.28	\$1,739.10	1,615.76		403.94	2,019.70	2,019.70	20.00%	10.00%	(\$173.91)
478042575		\$1,391.28		\$1,391.28	\$1,739.10	1,615.76		403.94	2,019.70	2,019.70	20.00%	10.00%	(\$173.91)
478047476		\$1,043.46		\$1,043.46	\$1,043.46	1,211.82			1,211.82	1,211.82	-	-	-
478048277		\$2,411.81		\$2,411.81	\$2,411.81	2,423.64			2,423.64	2,423.64	-	-	-
486313078	\$97.46	\$2,121.35		\$2,218.81	\$5,096.75	192.00	1,152.00	2,304.00	5,920.00	5,920.00	58.00%	48.00%	(\$2,446.44)
487674479	\$17.72	\$165.30		\$183.02	\$839.85	384.00	32.00	576.00	992.00	992.00	61.00%	51.00%	(\$435.57)
490677280	\$26.58	\$330.60		\$357.18	\$854.05	384.00			768.00	768.00	21.00%	11.00%	(\$72.54)
495086182		\$521.73		\$521.73	\$659.48	605.91			1,211.82	1,211.82	-	-	-
495656183	\$8.86	\$826.50		\$835.36	\$2,121.35	960.00	64.00	1,440.00	2,464.00	2,464.00	61.00%	51.00%	(\$1,081.89)
505469284		\$2,411.81		\$2,411.81	\$2,411.81	2,423.64			2,423.64	2,423.64	-	-	-
515010785	\$44.30	\$695.64		\$739.94	\$1,191.54	807.88	64.00	512.00	1,383.88	1,383.88	42.00%	32.00%	(\$381.29)
522534786		\$1,739.10		\$1,739.10	\$2,434.74	2,019.70			2,827.58	2,827.58	29.00%	18.00%	(\$462.60)
522535487		\$1,043.46		\$1,043.46	\$1,043.46	1,211.82			1,211.82	1,211.82	-	-	-
522539688		\$1,043.46		\$1,043.46	\$1,043.46	1,211.82			1,211.82	1,211.82	-	-	-
522542089		\$1,307.54		\$1,307.54	\$1,307.54	1,615.76			1,615.76	1,615.76	-	-	-
522543890		\$2,759.63		\$2,759.63	\$3,107.45	2,827.58			3,231.52	3,231.52	13.00%	3.00%	(\$93.22)
522544691		\$1,565.19		\$1,565.19	\$1,565.19	1,817.73			1,817.73	1,817.73	-	-	-
522551193		\$2,003.18		\$2,003.18	\$2,896.82	2,423.64			3,231.52	3,231.52	25.00%	15.00%	(\$404.82)
522552994		\$2,003.18		\$2,003.18	\$2,896.82	2,423.64			3,231.52	3,231.52	25.00%	15.00%	(\$404.82)
522563795		\$2,003.18		\$2,003.18	\$2,896.82	2,423.64			3,231.52	3,231.52	25.00%	15.00%	(\$404.82)
522561096		\$2,411.81		\$2,411.81	\$2,411.81	2,423.64			2,423.64	2,423.64	-	-	-
522562897		\$2,411.81		\$2,411.81	\$2,411.81	2,423.64			2,423.64	2,423.64	-	-	-
522567798		\$1,043.46		\$1,043.46	\$1,043.46	1,211.82			1,211.82	1,211.82	-	-	-
522576999	\$17.72	\$1,043.46		\$1,061.18	\$1,181.21	1,211.82	64.00	96.00	1,371.82	1,371.82	12.00%	2.00%	(\$23.62)
522579200	\$17.72	\$1,043.46		\$1,061.18	\$1,181.21	1,211.82	64.00	96.00	1,371.82	1,371.82	12.00%	2.00%	(\$23.62)
522580001	\$17.72	\$1,043.46		\$1,061.18	\$1,181.21	1,211.82	64.00	96.00	1,371.82	1,371.82	12.00%	2.00%	(\$23.62)
522582602	\$248.08	\$743.85		\$991.93	\$1,515.25	864.00	32.00	864.00	1,760.00	1,760.00	51.00%	41.00%	(\$621.25)
522583403	\$17.72	\$1,391.28		\$1,409.00	\$1,528.03	1,615.76	64.00	96.00	1,775.76	1,775.76	9.00%	-	(\$58.34)
522587504	\$17.72	\$695.64		\$713.36	\$839.39	807.88	64.00	96.00	967.88	967.88	17.00%	7.00%	(\$58.34)
522588305	\$17.72	\$1,391.28		\$1,409.00	\$1,811.68	1,615.76	64.00	192.00	1,811.68	1,811.68	14.00%	4.00%	(\$64.47)
522589106	\$17.72	\$695.64		\$713.36	\$839.38	807.88	64.00	96.00	967.88	967.88	17.00%	7.00%	(\$58.34)
522590907	\$35.44	\$695.64		\$731.08	\$971.14	807.88	128.00	192.00	1,127.88	1,127.88	28.00%	18.00%	(\$174.81)
522591708	\$35.44	\$695.64		\$731.08	\$971.14	807.88	128.00	192.00	1,127.88	1,127.88	28.00%	18.00%	(\$174.81)
522593309	\$17.72	\$347.82		\$365.54	\$485.57	403.94	64.00	96.00	563.94	563.94	28.00%	18.00%	(\$87.40)
522956210		\$82.65		\$82.65	\$220.40	96.00	64.00	96.00	256.00	256.00	63.00%	53.00%	(\$116.81)
528633111		\$1,307.54		\$1,307.54	\$1,307.54	1,615.76			1,615.76	1,615.76	-	-	-
535481612		\$82.65		\$82.65	\$137.75	96.00			160.00	160.00	40.00%	30.00%	(\$41.33)
538613113	\$17.72	\$330.60		\$348.32	\$888.75	384.00	32.00	384.00	800.00	800.00	52.00%	42.00%	(\$289.28)
542246414	\$35.44	\$743.85		\$779.29	\$1,046.90	864.00	64.00	288.00	1,216.00	1,216.00	29.00%	18.00%	(\$196.91)
543295015	\$17.72	\$247.95		\$265.67	\$551.00	288.00	64.00	288.00	640.00	640.00	55.00%	45.00%	(\$247.95)
	\$602,070.21	\$3,727,682.37		\$4,229,552.58	\$7,261,281.00	4,194,831.41	413,487.28	3,606,373.34	8,173,692.03	8,173,692.03			(\$2,847,122.79)



## HEALTH CARE REFORM BULLETIN

# Transitional Reinsurance Fee — HHS Issues Final Regulation

March 7, 2013 | UNITED STATES

**Summary:** The \$63 per year/per covered life transitional reinsurance fee (TRF) to be paid to the federal government by insured and self-insured group health plans beginning in 2014 has been confirmed in a final regulation from the Department of Health and Human Services (HHS). The final TRF rule will appear in a large regulation to be published in the March 11, 2013 *Federal Register* titled "Notice of Benefit and Payment Parameters for 2014." The final TRF rule substantially follows the proposed rule published in December 2012.

**Affected Plans:** Employer group health plans that are insured or self-insured will generally be subject to the TRF, including active and pre-65 retiree coverage; however, some health coverages, described below, will avoid the TRF, including coverage where Medicare pays primary to the employer plan (i.e., post-65 employer supplemental coverage).

**Timing:** The TRF applies to calendar-years 2014 through 2016. The first TRF payment will be owed to HHS in December 2014 with respect to the 2014 calendar year. Congress would need to amend the law to extend the TRF beyond 2016. The final regulation is effective May 10, 2013.

**Key Implications:** The \$63 per year/per covered life TRF for 2014 represents a material additional expense for employer plan sponsors, albeit one that is scheduled to decline in 2015 and then cease after 2016. Employers with calendar-year plans need to build this expense into budget rates for the 2014 calendar year (and for months falling in 2014 for non-calendar-year plans). Employers also need to identify who will administer the TRF payment within their organization, as recordkeeping and calculation of the average number of covered lives will be required.

## General Discussion and Observations

When drafting the Patient Protection and Affordable Care Act (PPACA), Congress tapped employers and insurers to bear the cost of a temporary reinsurance fund that will seek to stabilize premiums for coverage in the reformed individual health insurance market (inside and outside the exchanges) for a three-year period from 2014 through 2016.

billion for the reinsurance program, \$2 billion for the U.S. Treasury and an estimated \$20 million to administer the program. HHS has determined that this requires a per capita contribution rate of \$63.00 in 2014, or \$5.25 per month per covered life. That amount drops to approximately \$8 billion in 2015 and \$5 billion in 2016, with the per capita TRF amount expected to drop proportionally.

In states that choose to operate their own TRF program, the PPACA also permits a state to collect a supplemental assessment (beyond the \$63 per capita TRF paid to HHS) on *insured* products in the state to cover administrative expenses of the state TRF program. States may not assess self-insured plans for these additional state administrative expenses. HHS will administer the three-year reinsurance program for insurers in the individual market in states that choose not to operate their own TRF program.

Insurers and plan sponsors are permitted to deduct the TRF expense as an ordinary and necessary business expense. The DOL has also confirmed that TRF contributions will be a valid plan expense under ERISA and thus may be paid from plan assets of the PPO, HMO, HDHP or other such major medical coverage involved.

### **Making the TRF Payment**

Contributing entities are required to make the TRF payments annually to HHS. A "contributing entity" is an insurer, or a third-party administrator (TPA) or administrative services only (ASO) vendor on behalf of a self-insured group health plan. Insurers are responsible to make TRF payments on insured coverage. For self-insured plans, the plan is liable, although a TPA or ASO vendor may make the TRF payment on behalf of a self-insured plan at the plan's discretion. Thus, although self-insured plans are ultimately liable for TRF contributions, a TPA or ASO vendor may be contracted to make the payments. A self-insured plan that is self-administered by the employer would presumably need to make the TRF payment directly to HHS.

### **TRF Contributions Apply to Major Medical Coverage**

The final rule provides that TRF contributions must be made with respect to "major medical coverage" which includes health coverage for a broad range of services and treatments, including diagnostic and preventive services, as well as medical and surgical conditions. As a practical matter, this covers typical preferred provider organization (PPO), health maintenance organization (HMO) and high-deductible health plan (HDHP) coverage offered by employers, whether insured or self-insured.

### **COBRA**

COBRA or other continuation coverage is employment-based group health coverage, albeit usually paid for entirely by the former employee or other qualified beneficiary. For purposes of the TRF, COBRA coverage generally qualifies as major medical coverage (e.g., continuation of a PPO, HMO or HDHP option) and if no other exception applies, it will be subject to the TRF contribution.

### **Retirees**



Medicare Secondary Payer (MSP) rules to determine whether the employer coverage is considered major medical coverage. For this purpose, if Medicare is the primary payer, the employer (secondary) coverage would not be considered major medical coverage and would not be subject to the TRF contribution. This is why an employer's post-65 retiree medical coverage that supplements Medicare will not be subject to the TRF contribution (but pre-65 retiree coverage will be subject to the TRF contribution even if it is retiree-only coverage).

### Insured Medicare Products

Insured products under Medicare Parts C or D (i.e., prescription drug plan (PDP), Medicare Advantage prescription drug (MA-PD), employer group waiver plan (EGWP)) will not be subject to the TRF requirement, as these are considered governmental books of business, not commercial books of business.

The TRF contribution requirement does not apply to several other types of coverage, including:

- Excepted benefits under HIPAA (such as stand-alone dental and vision coverage)
- Health reimbursement arrangement (HRA) coverage that is *integrated* with a self-insured group health plan or health insurance coverage
- Health savings accounts (HSAs)
- Health flexible spending arrangements (health FSAs)
- Employee assistance plans (EAPs), disease management programs or wellness programs that do not provide major medical coverage
- Plans limited to prescription drug benefits
- Stop loss or indemnity reinsurance policies
- TRICARE and other military health benefits
- Coverage provided by Indian tribes to tribal members and their dependents
- Indian Health Service health programs
- Medicare (if primary), Medicaid or CHIP
- Federal or state high-risk pools, including the Pre-Existing Condition Insurance Plan Program
- Basic health plan coverage offered by insurers under contract with a state

### Calculating the TRF

The TRF contribution must be made for all "reinsurance contribution enrollees," which includes *all individuals* covered by a plan for which reinsurance contributions must be made — employee, spouse, children, domestic partners, etc. The TRF contribution is determined by multiplying the average number of covered lives of reinsurance contribution enrollees during the applicable benefit year (the calendar year) by the contribution rate for the applicable benefit year.

make the TRF payment to HHS annually. HHS will collect contributions on behalf of states, and will collect amounts for both insured and self-insured plans under the national contribution rate. The self-insured plan or the insurer will submit an annual enrollment count of the average number of covered lives of reinsurance contribution enrollees to HHS. Within 15 days of the submission of this annual enrollment count, or by December 15 if later, HHS will notify the contributing entity of the TRF contribution amount to be paid for that year. The contributing entity will then remit the contribution to HHS within 30 days after the notification date.

The final rule provides several methods for counting covered lives. Insured plans may use an actual count method, snapshot method or member-months method. Self-insured plans may use an actual method, snapshot method or Form 5500 method. The preamble clarifies that a plan would not have to use the same counting method for the TRF calculation that is used for purposes of the PCORI fee.

The final rule indicates that if a plan sponsor maintains two or more self-insured plans that collectively provide major medical coverage for the same covered lives, then those multiple plans should be treated as a single self-insured group health plan for the purpose of calculating the TRF contribution amount.

An exception specifies that a plan sponsor would not be required to include, as part of a single self-insured plan, coverage that consists solely of excepted benefits or that only provides benefits related to prescription drugs. In addition, the plan sponsor must report to HHS the counting method used and the names of the multiple plans being treated as a single group health plan.

**References:**

<https://s3.amazonaws.com/public-inspection.federalregister.gov/2013-04902.pdf>

(<http://www.towerswatson.com/https://s3.amazonaws.com/public-inspection.federalregister.gov/2013-04902.pdf>)

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**GLOBAL HEADQUARTERS**

875 Third Avenue

New York, NY 10022, USA

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**CITY AND COUNTY OF SAN FRANCISCO  
DEPARTMENT OF THE ENVIRONMENT**

**INDEPENDENT AUDITOR'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

**APRIL 15, 2013**

**By**

**Calvin Y. Louie, CPA  
838 Grant Avenue, Suite 402  
San Francisco, CA 94108  
(415) 397-6411**

**Exhibit 70**

**Exh. 70**

**CITY AND COUNTY OF SAN FRANCISCO  
DEPARTMENT OF THE ENVIRONMENT  
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**CALVIN Y. LOUIE**  
**Certified Public Accountant**

838 Grant Avenue, Suite 402-7, San Francisco, CA 94108 (415) 397-6411 Fax (415) 397-6617

**Independent Accountant's Report on**  
**Applying Agreed-Upon Procedures**

April 15, 2013

Mr. David Assmann  
Deputy Director  
Department of the Environment  
City and County of San Francisco  
11 Grove Street  
San Francisco, CA 94103

Dear Mr. Assmann:

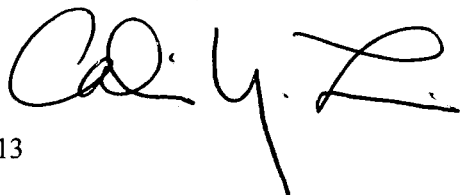
I have performed the procedures enumerated in the various sections of this report, which were agreed to by the City and County of San Francisco Department of the Environment, solely to assist you with respect to the financial evaluation of the 2013 applications submitted by Sunset Scavenger Company, Golden Gate Disposal & Recycling Company, and Recology San Francisco for increases in rates for collection and disposal of refuse. All of the entities referred to above are wholly-owned subsidiaries of Recology San Francisco.

My engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Rate Board of the City and County of San Francisco. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The results of the procedures performed are included in the various sections of this report.

I was not engaged to, and did not perform an audit of consolidated or separated-company financial statements of Recology San Francisco and its Subsidiaries, the objective would be the expression of an opinion on the consolidated and separate-company financial statements. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of management of the Rate Board of the City and County of San Francisco, and is not intended to be used by any other party.



April 15, 2013

## SUMMARY OF PROCEDURES PERFORMED AND FINDINGS

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### Summary of Procedures Performed

I performed an analysis of cost elements incurred by Recology, Inc., and allocated to Recology SF ("RSF"), Sunset Scavenger and Disposal Company ("SSC") and Golden Gate Disposal and Recycling Company ("GGD"). This analysis included an evaluation of Recology's audited financial statements, and of the detailed supporting schedules and financial reports for the amounts contained in the 2013 rate applications ("Rate Applications") submitted by RSF, SSC and GGD (collectively referred to as the "SF Companies"). I performed the following procedures:

- 1) Compared certain actual historical revenue and cost figures contained in the SF Companies' respective Rate Applications with amounts contained in the SF Companies' audited financial statements.
- 2) Analyzed historical intercompany transactions and allocated Recology corporate costs to assess the appropriateness and reasonableness of intercompany charges and allocated corporate charges and the existence of double profit, if any. Intercompany transactions analyzed included the following:
  - a. Transactions between the SF Companies and Recology Leasing Company
  - b. Transactions between the SF Companies and Recology Properties
  - c. Transactions between and among the SF Companies.
- 3) Analyzed direct and indirect expenses, cost allocation methods, and professional service fees contained in the following cost centers:
  - a. Corporate Administration
  - b. Human Resources
  - c. Finance
  - d. Information Technology
  - e. Environmental Compliance
  - f. Sustainability
- 4) Identified, within Recology's financial records, certain accounts from which expenses for corporate acquisitions, proposals, and political contributions were paid.
- 5) Summarized the findings resulting from the above procedures and developed my findings.

**RECOLOGY DEPARTMENTAL EXPENSES ALLOCATED  
TO SF COMPANIES**

Recology's total adjusted Corporate and Technical Services expenses for the rate year ended June 30, 2012 to be \$20,376,506. Of this total amount, \$6,959,792, or 34.2%, has been allocated to the SF Companies. Table 1 summarizes Recology's total Corporate and Technical Services expenses, and amounts allocated to the SF Companies for the rate year ended June 30, 2012. Table 2 summarizes the expenses allocated to each company.

**Table 1  
Total Corporate/Technical Expenses and  
Allocation to SF Companies by Expense Category  
for the rate year ended June 30, 2012**

Corporate/Technical Services Expense Category	Total Expenses	Total Excluded Expenses	Rate Year Ended June 30, 2012		Percent of Total Expenses Allocated to SF Companies
			Adjusted Total Expenses	Total Allocated to SF Companies	
Corporate Administration	\$ 4,195,144	\$ (519,634)	\$ 3,675,510	\$ 1,363,708	37.1%
Human Resources	2,924,447	(527,731)	2,396,716	814,166	34.0%
Finance	4,847,985	(301,302)	4,546,683	1,821,869	40.1%
Information Technology	8,196,275	(66,423)	8,129,852	2,367,233	29.1%
Environmental Compliance	1,146,363	(47,689)	1,098,674	407,747	37.1%
Sustainability	905,783	(376,712)	529,071	185,069	35.0%
Total	<u>\$ 22,215,997</u>	<u>\$ (1,839,491)</u>	<u>\$ 20,376,506</u>	<u>\$ 6,959,792</u>	<u>34.2%</u>

**Table 2  
Total Corporate/Technical Expenses  
Allocated by Company  
for the rate year ended June 30, 2012**

Company	Total Allocated Corporate/Technical Services Expenses
SSC	\$ 3,532,303
GGD	2,191,889
RSF	1,242,274
West Coast	(6,674)
Total	<u>\$ 6,959,792</u>

**Procedures Performed**

I performed the following procedures:

1. Analyzed the methodologies used by Recology to allocate Corporate Services to the San Francisco Companies.
2. Evaluated the appropriateness of the allocation bases (for example, total revenues in each company when total revenues was used as the allocation methodology).
3. Analyzed legal and professional fees for the year ended June 30, 2012 (Recology's fiscal year) by performing the following:
  - a. Analyzed legal and professional fees by department and compared these amounts to actual expenditures for the fiscal year ended June 30, 2012.
  - b. Identified specific vendors that provided legal services during the year ended June 30, 2012 and inspected documentation to determine the propriety of the expenses and whether they were recurring in nature.
  - c. Evaluated the appropriateness of expenses excluded from Recology's allocated expenses.

### **Findings**

I have the following findings:

1. Recology uses the following methodologies to allocate Corporate and Technical Services expenses:
  - a. Corporate Administration, Environmental Compliance and Finance expenses are allocated based on each operating company's gross revenues.
  - b. Human Resources costs are allocated on headcount in each operating company.
  - c. Information Technology is allocated on composite of percentages from headcount, number of disbursement checks and number of accounts receivable and accounts payable transactions for each company.
2. I reconciled total consolidating Recology revenues to Recology's general ledger without exception.
3. I found that Recology allocated various expenses to the SF Companies when the supporting documentation indicated one or more of the following conditions:
  - a. Certain expenditures were made for the specific benefit of one or more Recology companies other than the SF Companies. Accordingly, the SF Companies should not be allocated any part of these expenses.
  - b. Certain expenditures were made solely for the benefit of the Recology legal entity (for example, the consolidated financial statements of the parent company Recology). However, all of the costs in the particular general ledger account were allocated to the operating companies, even though certain of the expenses benefited only the parent company and its shareholders. I did not inspect documentation to determine the percentage of expenses that benefited only Recology as the parent company and its shareholders.

Recology excluded a total of \$1,839,491 from amounts subject to allocation for the fiscal year ended June 30, 2012, including expenditures for advertising, promotions and special events,



entertainment, dues and subscriptions, non-cash ESOP, business meals and certain professional fees. I identified an additional \$98,151 that should be excluded from allocation to the SF Companies.

Table 3 summarizes Recology's expenses excluded from allocation, as well as my proposed adjustments. Following the table are the related notes to the table that describe the detailed findings from my evaluation of legal and professional fees.

**Table 3**  
**Recology's Expenses Excluded**  
**From Allocation and Related Proposed Adjustments**  
**for the fiscal year ending June 30, 2012**

	Expenses for the Fiscal Year Ending June 30, 2012						Total
	Corporate Administration	Human Resources	Finance	Information Technology	Environmental Compliance	Sustainability	
Expenses excluded by Recology	\$ 519,634	\$ 527,731	\$ 301,302	\$ 66,423	\$ 47,689	\$ 376,712	\$ 1,839,491
<b>Adjustments (by Vendor):</b>							
KPMG			35,000				35,000
PwC			63,151				63,151
Total adjustments			98,151				98,151
Total excluded expenses	\$ 519,634	\$ 527,731	\$ 399,453	\$ 66,423	\$ 47,689	\$ 376,712	\$ 1,937,642

- i. Included in Recology's professional fees for Accounting for FY2012 is \$1,233,458 for KPMG for audit, accounting and tax services. Upon review of KPMG invoices from 2012, I noted that some of the activities described in a particular KPMG invoice (#44414046) totaling \$92,000 was related to the ESOP. The break down of the invoice is as follows: 401K \$25,000, Defined Benefit Pension Plan \$32,000, and ESOP \$35,000. Therefore, I recommend a reduction of \$35,000 (ESOP) to adjust for accounting and auditing costs related to Recology.
- ii. Included in Recology's professional fees for Accounting for FY2011-12 is \$179,941 for PricewaterhouseCoopers. Upon review of PwC invoices from 2012, I noted that some of the activities described in two particular PwC invoices (3/6 and 5/10) referenced a "Post Acquisition Integration Audit" fee totaling \$63,151. When inquiring about the Post Acquisition Integration audit, I was told that the expense was included because it was a risk factor for the internal audit function. However, no recent acquisitions have taken place involving the San Francisco Companies. Therefore, I recommend a reduction of \$63,151 from Recology's cost base for FY2013 Other Professional Service fees related to PwC.

Table 4 summarizes Recology's expenses after audit adjustment and allocation to SF Companies.

**Table 4**  
**Total Adjusted Corporate/Technical Expenses and**  
**Allocation to SF Companies by Expense Category**  
**for the rate year ended June 30, 2012**

Rate Year Ended June 30, 2012

Corporate/Technical Services Expense Category	Total Expenses	Total Excluded Expenses	Adjusted Total Expenses	Audit Adjustment	Final Adjusted Total Expenses	Total Allocated to SF Companies	Percent of Total Expenses Allocated to SF Companies
Corporate Administration	\$ 4,195,144	\$ (519,634)	\$ 3,675,510		\$ 3,675,510	\$ 1,363,708	37.1%
Human Resources	2,924,447	(527,731)	2,396,716		2,396,716	814,166	34.0%
Finance	4,847,985	(301,302)	4,546,683	\$ (98,151)	4,448,532	1,783,861	40.1%
Information Technology	8,196,275	(66,423)	8,129,852		8,129,852	2,367,233	29.1%
Environmental Compliance	1,146,363	(47,689)	1,098,674		1,098,674	407,747	37.1%
Sustainability	905,783	(376,712)	529,071		529,071	185,069	35.0%
<b>Total</b>	<b>\$ 22,215,997</b>	<b>\$ (1,839,491)</b>	<b>\$ 20,376,506</b>	<b>\$ (98,151)</b>	<b>\$ 20,278,355</b>	<b>\$ 6,921,784</b>	<b>34.2%</b>

In addition to the above, after evaluating Recology's historical Corporate Administration, Human Resources, Finance, Environmental Compliance, Information Technology, and Sustainability expenses for the fiscal year ending June 30, 2012, I propose no adjustments to the expenses allocated to the SF Companies.

- a. I reviewed Professional Services under the Other Expenses category and tested its reasonableness. All transactions have been reviewed and I did not find any exception.
- b. According to Recology, donations have already been considered disallowed expenses and were not allocated to the San Francisco Companies.
- c. I reviewed the invoices and journal entries under Professional Services for the legal firm Arnold & Porter Howard Rice. All transactions have been reviewed and I did not find any exception.
- d. I reviewed HR journal entry transactions related to Rentals. The current headcount of the HR department for the San Francisco Companies was 8, while a head count of 12 was allocated. Recology mentioned the discrepancy was due to the recent turnover in the HR department.
- e. I reviewed the office expenses of the HR department. All transactions have been reviewed and I did not find any exception. The total amount of \$213,579 matched the amount listed on the provided list of expenses.
- f. I reviewed the depreciation expenses of the IT department. All transactions have been reviewed and I did not find any exception. The total amount of \$782,350 matched the amount listed on the provided list of expenses.
- g. I reviewed the rental expenses of the IT department. All transactions have been reviewed and I did not find any exception. The total amount of \$1,086,553 matched the amount listed on the provided list of expenses.
- h. I reviewed the office expenses of the Sustainability department. All transactions have been reviewed and I did not find any exception. The total amount of \$216,133 matched the amount listed on the provided list of expenses.
- i. I reviewed the other expenses of the Compliance category. All transactions have been reviewed and I did not find any exception. The total amount of \$41,251 matched the amount listed on the provided list of expenses.
- j. I reviewed the rental expenses of the Corporate Administration category. All transactions have been reviewed and I did not find any exception. The total amount of \$234,874 matched the amount listed on the provided list of expenses.
- k. I reviewed the Bank Service Charge expenses of the Finance department. All transactions have been reviewed and I did not find any exception. The total amount of \$682,505 matched the amount listed on the provided list of expenses. Charges belonging to other regions were noted on the bank statements and according to Recology, only part of the total was allocated to the San Francisco Companies.

## **Functional Non-Departmental Expenses Allocated to SF Companies**

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In addition to allocating the expenses of various support departments to the SF Companies, Recology allocates the costs of certain “natural” expenses to all of its subsidiaries, including the SF Companies.

### **LEASES**

The SF Companies, as well as all other Recology operating companies, lease substantially all of their equipment from a Recology subsidiary. Because the leases are with a Recology entity instead of with a third party, I evaluated the propriety of the interest rates implicit in these leases. In addition, the SF Companies lease certain real property from Recology Properties.

### **Procedures Performed**

I performed the following procedures:

- Selected twenty leases between the SF Companies and Recology’s leasing subsidiary, and evaluated them to determine if the lease rates were above market rates.
- Selected equipment leases from each of the three SF Companies and performed the following:
  - Obtained information on the present value (“PV”) of the lease amount, assumed to be equivalent of the equipment acquisition price by any Recology company.
  - Obtained information on the lease rates for each of these leases.
  - Recalculated the monthly and annual implicit rates and lease rate as a percentage of PV.
  - Recalculated a blended actual interest rate for financing of equipment purchases.
- Calculated actual interest rates at the inception of each lease.
- Calculated monthly lease payments based on actual financing rates at the inception of each lease

Coast Counties Truck								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
1	167097	08 Peterbilt Tractor	84	\$ 117,942.50	\$ 1,822.89	7.74%	8.02%	15.30%
2	207626	10 Peterbilt Tractor	84	\$ 139,412.87	\$ 1,914.93	4.15%	4.23%	8.32%

Consolidated Fabricator								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
3	318764	50YD Debris Boxes	84	\$ 34,189.38	\$ 457,072.00	3.39%	3.44%	6.23%

CRAM-A-LOT								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
4	323774	25YD SC Compactor	84	\$ 29,565.26	\$ 394.81	3.31%	3.36%	6.37%

Everlite								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
5	181121	08 Alumatech 38ft end dump	84	\$ 57,687.12	\$ 800.99	4.47%	4.56%	10.73%

Golden Gate Truck Center								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
6	174300	08 Freightliner W/14' Utility	84	\$ 147,973.04	\$ 2,037.80	4.22%	4.31%	10.44%
7	227871	11 Firehtliner W/Van body	84	\$ 86,951.32	\$ 1,208.80	4.50%	4.60%	7.68%

Lehmer's Concord Buick								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
8	265771	11 GMC Sierra 2500 Pickup	84	\$ 44,093.35	\$ 619.02	4.80%	4.90%	8.21%

Norcal Waste Equipment								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
9	324144	Compactor Model 50 w/ 4YD	84	\$ 16,275.00	\$ 215.12	3.01%	3.05%	6.40%

Pape Material Handling								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
10	216485	Hyster H60FT Forklift	84	\$ 47,040.75	\$ 652.45	4.44%	4.53%	8.53%
11	208805	Hyster H80FT Forklift	84	\$ 45,449.50	\$ 630.70	4.45%	4.54%	8.46%

Peterson CAT								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
12	320143	Used CAT 980G Wheel Loader	84	\$ 223,987.00	\$ 4,095.16	3.70%	3.77%	6.39%
13	198694	CAT 938H Wheel Loader	84	\$ 282,865.88	\$ 3,785.91	3.38%	3.43%	8.39%
14	322704	CAT 938K Wheel Loader	84	\$ 257,395.41	\$ 3,131.57	0.62%	0.62%	6.37%

Tec of California								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
15	320311	12 GMC Sierra Pickup	84	\$ 26,162.76	\$ 349.49	3.32%	3.37%	6.39%
16	244030	11 GMC Sierra Pickup	84	\$ 40,183.73	\$ 556.00	4.36%	4.45%	7.91%
17	216477	09 GMC C4500 Pickup	84	\$ 44,071.94	\$ 611.28	4.44%	4.53%	8.53%

Toter Inc								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
18	269683	20GAL Inserts, Black	84	\$ 6,750.51	\$ 97.50	5.65%	5.80%	8.05%

Western Trailers								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
19	162237	08 Western 50' Live Flr Trailer	84	\$ 85,625.69	\$ 1,312.71	7.49%	7.75%	14.75%

Western Truck								
Test #	Item #	Description	Months	PV	Payments	Monthly Interest Rate	Annual rate	Benchmark annual lease rate*
20	193922	08 Autocar Chassis	84	\$ 152,455.02	\$ 2,023.55	3.13%	3.18%	8.06%

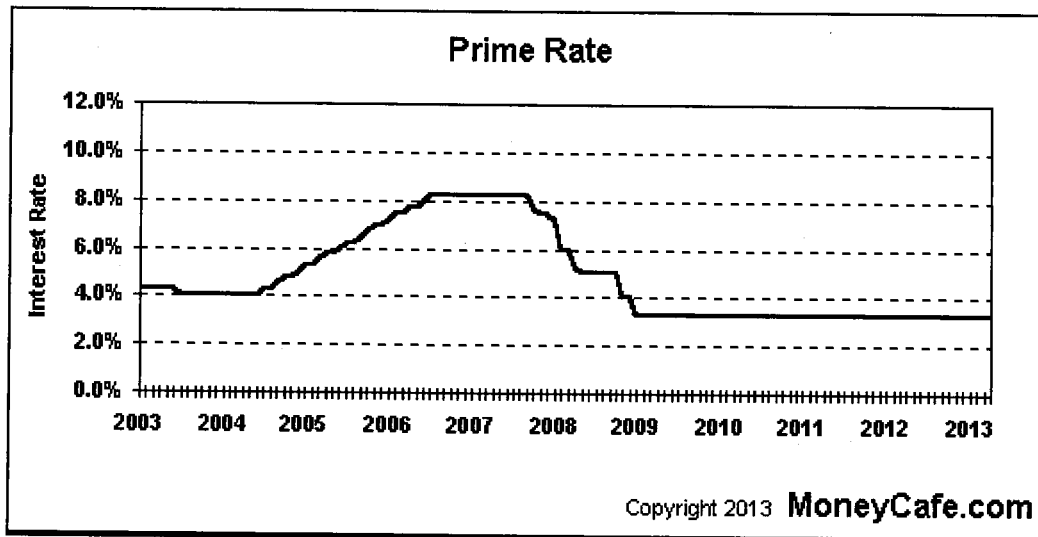
\* Benchmark annual lease rate equals to the prevailing prime rate plus 7 years treasury bill rate + 200 basis point

## Findings

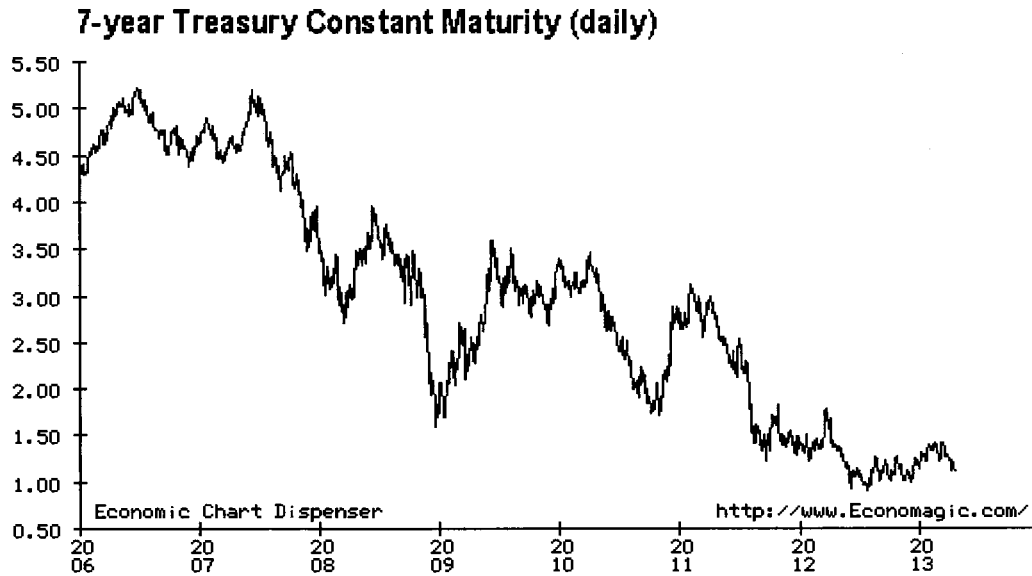
I have the following findings:

- I propose no adjustments to the lease expenses included in the rate applications.
- I referenced borrowing rates at the inception of each lease and then recalculated the lease payments using these market types of borrowing facility. For market rates, I used an average of the U.S Bank Prime Rate plus 200 basis points (based upon my analysis of Recology's historical borrowing under its Revolving Credit Agreement) and the 7-year U.S. Treasury Bill rate plus 200 basis points (based upon its current lease line agreement). As shown in Table 10 and Table 11, the prime rate and 7-year Treasury Bill rate, respectively, declined after implementation of the refuse collection rates in July 2006. According to the diagram below, I expect the prime rate will remain stable in 2013 and going forward.

**Table 4**  
**Prime Rates**  
**2003-2013**



**Table 5**  
**7-Year Treasury Bill Rates**  
**2006-2013**



- Since the above-mentioned interest rates decreased since July 2006, Recology's borrowing costs decreased accordingly. Based upon my selected samples, all the 7-year leases for Recology had been set lower than the market benchmark annual lease rate.

