

Post-Filing Changes to Final Application

Description of Change	Location of Change
Change to Zero Waste Incentives Section to correct description of how tier targets are going to be set in subsequent years.	Narrative Summary, page 13
Change to reflect correction of percent of revenue increase requirement related to additional funding of City Departments and assumption of abandoned material collection program	Narrative Summary, page 17
Change to reflect correction of percent of required revenues related to decreases in other expenses	Narrative Summary, page 18
Change to remove calculation that was no longer applicable	Sunset/Golden Gate Schedule B1
Added section to calculate monthly rate for typical residential customer	Sunset/Golden Gate Schedule B2
Change to remove calculation that was no longer applicable	Sunset/Golden Gate Contingent Schedules 1 and 2, Schedule B



**2013 RATE APPLICATION
NARRATIVE SUMMARY**

March 14, 2013

Recology Sunset Scavenger
Recology Golden Gate
Recology San Francisco



I. OVERVIEW

A. MANAGEMENT OF RESOURCES IN SAN FRANCISCO

The City of San Francisco is recognized as a world leader in environmental stewardship. In 2011, San Francisco was named the Greenest City in North America, in large part due to its number one ranking in waste management. In 2012, San Francisco announced that it had achieved 80 percent landfill diversion, again demonstrating international leadership for a major urban city. The San Francisco collection and processing companies – Recology Sunset Scavenger, Recology Golden Gate, and Recology San Francisco (the “San Francisco Companies” or “Companies”) – work in concert with the City to achieve these important goals. The combined efforts of the City and the Companies have been the focus of local, national, and international media coverage as one innovative achievement after another has been recognized.

The City is not resting on its past accomplishments. San Francisco’s Board of Supervisors has passed two major policy initiatives that steer the City forward to even greater environmental stewardship: (1) the Mandatory Recycling and Composting Ordinance (the Mandatory Ordinance) and (2) Zero Waste by 2020.

1. Mandatory Recycling and Composting Ordinance

The Mandatory Recycling and Composting Ordinance took effect in October 2009. It requires all residents and businesses to separate discarded materials into three streams – recyclables, compostables, and trash. While the City’s residential and commercial customers have been served by this three-stream system for about ten years, until passage of the Mandatory Ordinance, participation had been voluntary. The Mandatory Recycling and Composting Ordinance not only mandated full compliance with the separation system, it also included enforcement provisions.

The Ordinance has resulted in substantial impacts to both service and customer billings. As a result of the Ordinance, participation increased and diversion rates picked up significantly, particularly as previously non-participating or poorly-participating multi-family and commercial customers moved to greater recycling and composting service. Presently, residential/apartment customers are billed solely on the basis of trash bin volume and commercial customers receive steep discounts on recycling and composting services. As a consequence of the current rate structure, billings to customers decreased as trash service (black landfilled stream) decreased and recycling service (blue stream) and composting service (green stream) increased.

The current rate structures for both residential/apartment rates and commercial rates were designed to promote diversion, and both provide strong financial incentives for customers to orient their service to diversion (recycling and composting services). Under these structures, however, as the diversion programs became more successful and the service configuration shifted, the Companies’ revenues have decreased. At the same time, costs have increased related to the additional recycling and composting services provided. Any cost reductions in



providing reduced trash services have been far outweighed by additional cost of expanded recycling and composting services.

2. Zero Waste By 2020

Zero Waste by 2020 is a policy goal adopted by the City in 2003. Zero waste includes eliminating tonnage from going directly to landfill and finding the highest and best use for all discarded materials. Achieving zero waste is a very challenging goal that will require significant planning, infrastructure investment, and changes to collection and processing operations. The Companies have been working with the City to identify the necessary system improvements, including the incorporation of new waste processing technologies and changes to collection practices. These planning activities will continue during the near-term horizon covered by this rate application. In addition, the Companies will begin the challenging task of processing the trash stream (i.e., black bins) to further reduce the quantity of materials being landfilled.

B. RATE APPLICATION GOALS AND OBJECTIVES

The fundamental goal of the Companies in submitting this rate application is to obtain approval for fair and reasonable rates that will generate sustainable revenues to allow the Companies both to maintain quality service and to continue developing and operating innovative programs to help the City attain its ambitious diversion goals. The Companies' application is driven by two main objectives:

- Begin implementation of sustainable zero-waste residential and apartment rate structures.
- Advance the effort to achieve zero waste by 2020

The rate application includes a request for revenue adjustments equal to 21.51% from each customer segment (residential, apartment, and commercial). Individual customer rate increase percentages will vary depending on their respective volume and composition of service. Customers who in the past have received recycling and composting services without a specific charge related to those services may see rate increases greater than the average increase.

C. RATE APPLICATION PROCESS

The rate application process follows the Rules of Procedure set forth in Department of Public Works (DPW) Order No. 180,851. The Companies are proposing a one-year rate period beginning on July 1, 2013 and ending on June 30, 2014. Cost of Living Adjustments (COLA) would be applied in subsequent rate years until new rates are established as a result of a new application process.

D. WEBSITE: www.SFZeroWasteRates.com

To promote transparency in the rate application review process, the Companies have established a website to make facts and information about the rate application easily available



to San Francisco residents. Customers can find information about the rate process at www.SFZeroWasteRates.com.



II. PROGRAMS INCLUDED IN THE RATE APPLICATION

A. CURRENT PROGRAMS

The rate application assumes that programs currently provided to San Francisco's residential and commercial customers will continue in the new rate period. These programs play an integral role in achieving the City's diversion goals. The core of the system is the three-stream collection of recyclables, compostables, and trash from residential, apartment, and commercial customers. In addition, the three-stream program is augmented by a variety of specialized collection and processing operations.

Current programs and operations to be continued include:

1. **COMINGLED RECYCLABLES COLLECTION (Blue Stream):** Residential and commercial collection of comingled recyclable, including paper, glass, aluminum, tin cans, and hard plastics (cups, tubs, lids, buckets, and toys without wires or metal parts).
2. **COMPOSTABLES COLLECTION (Green Stream):** Residential and commercial collection of food scraps, plant materials (yard waste), and soiled paper.
3. **TRASH COLLECTION (Black Stream):** Residential and commercial collection of non-recyclable and non-compostable materials.
4. **BULKY ITEM RECYCLING (RecycleMyJunk.com):** Special collection and recovery of bulky items, such as appliances, electronics, furniture, scrap metal, and wood through scheduled pick ups to facilitate customer participation and maximize recycling.
5. **CURBSIDE BATTERY RECYCLING:** Customers place batteries in zip-lock bags and place them on top of their black bins. Trash collectors place them in a special bucket in the collection truck. Workers at the transfer station then sort the batteries according to DOT rules and ship them to battery recycling facilities.
6. **COMMERCIAL WOOD, SCRAP METAL AND LARGE PLASTIC RECYCLING:** Special routes collect broken pallets from warehouses, wood scraps from cabinetmakers, and car doors and bumpers from auto shops, which are then sorted and recycled.
7. **WINDOW GLASS RECYCLING:** Glass from window shops and commercial customers is collected.
8. **CHRISTMAS TREE RECYCLING:** Christmas trees are collected at the curb during the first two weeks of January, chipped, and used at biomass facilities.
9. **CONSTRUCTION-AND-DEMOLITION WASTE RECYCLING:** As buildings are constructed, remodeled or demolished, metal, wood, sheetrock, rigid plastic, and other construction materials are captured in debris boxes, then taken to Recology's



construction-and-demolition recycling facility (iMRF) for sorting.

10. HOUSEHOLD HAZARDOUS WASTE DROP OFF: Recology operates the San Francisco Household Hazardous Waste Collection Facility (HHWCF), where residential customers can drop off household hazardous wastes (e.g., paint, oil, pesticides, and household chemicals) three days per week for safe recycling and disposal. This facility has been open since 1987 and was the first permanent HHWCF in the nation.
11. DOOR-TO-DOOR HOUSEHOLD HAZARDOUS WASTE COLLECTION: Recology also collects household hazardous wastes directly from homes using specialized trucks for handling and transporting these materials.
12. VERY SMALL QUANTITY GENERATOR PROGRAM: Qualifying small business generators of hazardous waste in San Francisco may use the HHWCF by appointment for a fee on designated days each month.
13. E-WASTE RECYCLING: Most electronic waste is banned from landfill in California. Fluorescent tubes, monitors, televisions, computers, and other electronics are collected from drop-off locations, curbside collection appointments, and the transfer station then shipped to facilities specializing in recycling specific types of e-waste.
14. SAFE NEEDLE PROGRAM: The San Francisco Safe Needle Disposal Program (SFSNDP) provides San Francisco residents with safe, convenient disposal of home-generated sharps at more than 70 pharmacies throughout the City. Residents can pick up empty sharps containers at participating pharmacies, fill them, and then return them for disposal as medical waste.
15. SELF-HAUL RECYCLING: Recology operates a special sorting line to recycle wood, metal, rigid plastic and other materials self-hauled by individuals and small contractors to the Public Reuse and Recycling Area (PRRA) at the Tunnel and Beatty facility.
16. PERFECTLY-GOOD REUSE PROGRAM: Recology pulls items that are in good condition for reuse (e.g., bicycles, furniture, clothing) from loads brought to the PRRA by individuals and small contractors. The re-useable items are either donated directly or given to organizations (e.g., St. Vincent DePaul) that process them for distribution in thrift stores.
17. MATTRESS RECYCLING: Mattresses from residents, hotels, and designated collection trucks are loaded into trailers at Tunnel and Beatty and transported to a local company specializing in mattress recycling.
18. TEXTILE DROP-OFF AND COLLECTION: Residents and businesses can drop off textiles at the PRRA. In addition to the drop-off, Recology collects source separated textiles from businesses that manufacture clothing and cut garment patterns. Residents can also have textiles collected through Bulky Item Recycling. The textiles



are sent to reuse and recycling markets.

19. TOILET RECYCLING: Old toilets are segregated from the waste stream and transferred to a company that specializes in porcelain recycling. Prior to shipment, toilet seats and lids are removed and baled with other rigid plastics for recycling.
20. TIRE RECYCLING: Used tires are handled separately at Tunnel and Beatty and then taken to a company that shreds and recycles the rubber.
21. STYROFOAM DROP-OFF: Residents and businesses can drop off clean styrofoam blocks at the PRRA for recycling. Recology San Francisco operates a special densifier that condenses loose pieces of styrofoam into ingots, which are recycled into such products as base boards and moldings.
22. FILM PLASTIC DROP OFF: Residents and businesses drop off clean polyethylene film plastic (e.g., plastic bags) at Recycle Central at Pier 96 and the PRRA for recycling. The film plastic is baled and shipped to plastic recycling markets.
23. PUBLIC LITTER CAN COLLECTION: Recology collects from over three-thousand public litter cans distributed around the City. Each can is emptied at least once per day, and some cans are emptied regularly as many as three times per day. Cans emptied more than once are emptied outside of the regular route service and on demand within 2 hours of notification of service necessity by the City.
24. DISTRICT CLEAN-UP EVENTS: Special clean-up events are held at least annually in each of the City's eleven Supervisorial Districts to allow residents to drop off items too big to fit in the regular collection bins, including all three refuse streams. Motor oil, batteries, and fluorescent lamps are also accepted.
25. EVENT RECYCLING: Recology provides recycling and composting collection services to neighborhood festivals and major functions such as the Chinese New Year Parade and the Pride Parade.
26. CONCRETE AND ASPHALT RECYCLING: Recology's Sustainable Crushing operation crushes and recycles concrete, asphalt, bricks, and porcelain into recycled construction products. Our aggregate and engineered-fill products not only displace virgin materials, but they play an integral role in a closed-loop recycling system, whereby old City streets and structures are recycled back into similar construction uses within the City by local companies.
27. CONCRETE REUSE: Recology also utilizes excess wet concrete from cement companies for creating building-block products as well as on-site construction applications.
28. BUY-BACK CENTERS: Recology operates buy-back centers for customers who want to bring in bottles and cans for deposit redemption.
29. ARTISTS IN RESIDENCE: Recology sponsors an artist in residence program to



demonstrate the possibilities of creative reuse of materials and to promote recycling. The Company sponsors about 8 residencies per year through this award-winning program, providing work space, access to materials, administrative support, and exhibition opportunities.

30. **EDUCATIONAL TOUR PROGRAM:** Recology provides educational tours to thousands of children and adults annually. The focus of the tour is on recycling, composting, reuse, and resource conservation. The tour includes visits to Recycle Central and Tunnel and Beatty.

31. **COMPOST GIVEAWAY:** Periodically, Recology provides free compost to San Francisco residents at various locations in the City. In addition, free compost is provided at District Clean Up events. The compost is derived from food and garden wastes generated in San Francisco, collected by Recology, and composted at one of Recology's composting facilities.

The Companies and the City have worked together for many years to provide the public education and outreach needed to support these programs, and the continued success of the programs requires on-going public education and outreach efforts. General outreach and specialized, targeted outreach programs will continue through the rate period and beyond.

B. NEW PROGRAMS

1. Trash Processing

In 2013, Recology San Francisco plans to begin processing a portion of the trash (black bin) stream. The processing operation will be conducted on the west side of the transfer station. The processing equipment consists of a bag breaker, a mechanical screen, a sorting platform and conveyor, a Bio Separator, and associated transfer conveyors. Black stream loads will be unloaded onto the transfer station floor and inspected for prohibited wastes. The waste will then be loaded into the bag breaker and fed through to the screen. Large materials that do not pass through the screen will be sorted for recovery (e.g., metals, glass, paper, plastic containers). Small materials that pass through the screen (unders) will be loaded into the Bio Separator, which separates the waste into two streams: an organic-rich material suitable for anaerobic digestion and/or composting and a separate stream consisting mostly of plastic and other non-organic materials. The objectives of this project are to achieve increased diversion of materials from landfilling and to gain experience with trash processing, thereby providing insight and experience in advance of the zero waste facilities design.

2. Abandoned Materials Collection

At the request of the City, the Companies have proposed the assumption of a part of the abandoned materials collection program currently operated by the DPW compactor trucks. This proposed program includes the collection of items identified through the City's 311 reporting system, along with abandoned materials identified by Company personnel. The Companies propose to operate the program similar to Bulky Item Recycling, with utilization of five rear-loading packer trucks, five box trucks (for mattresses, electronics, appliances,



etc.) and one pickup truck. Each crew would consist of two drivers, one in a rear loader and one in a box truck. Drivers would be assigned to a specific service area, and would be routed to collect abandoned materials reported through the 311 system. The company's goal is to respond to abandoned waste requests within a four-hour window on weekdays and an eight-hour window on weekends and holidays. Drivers would also be expected to collect any abandoned materials present on their routes where practical, even if it is not part of the 311 calls. All stops and collections will be documented. This program structure will increase collection and diversion of abandoned materials.

In addition to collection of materials related to 311 calls, the abandoned materials program will provide support for events identified by the City, including selected parades, festivals and holidays. The proposed plan includes all program costs, including 10 drivers each weekday, 8 drivers on Saturday, 6 drivers on Sunday, supervision, administrative support, vehicle costs, and disposal costs corresponding to expected tonnage.

3. Public Litter Can Maintenance

During the last year the Companies have expanded their collection of public litter cans at the direction of DPW to address an increased level of activity in the City and to assist DPW with litter control. The Companies currently operate 10.5 dedicated public litter can collection routes seven days per week, and a small part time sweep truck during the work week on Market St. Mission St. and the Financial District transit corridors. In addition to servicing the cans with regular route and sweep trucks we also employ a rover position that walks the shopping districts in Union square seven days per week during the Holiday shopping season from mid-November through mid-January and also during the summer from June through September. The combination of the dedicated route trucks, sweep trucks and rover helps to ensure that all of the public litter will receive adequate service throughout the day. The Companies are working with the City's 311 Customer Service and Dispatch System to better deploy resources and have agreed to respond to service issues within two hours of receiving a request from the 311 system. The Companies are also proposing to procure and implement a route tracking system to manage the additional public litter can routes.

In addition to the services described above, the Companies are proposing to assume responsibility for replacement of liners and doors for all public litter cans. This additional service will be performed by existing Company personnel and will be added to their current responsibilities without an increase in headcount. DPW will supply the Companies with liners and doors as necessary to maintain the public litter cans. The City, through DPW, will retain responsibility for major can repairs, installation and removal, graffiti abatement, and steam cleaning.

The Companies are proposing to fund the replacement of up to five hundred (500) newly designed public litter receptacles to support DPW Street Environmental Services. The funds will be collected and transferred to the Impound Account and new receptacles will be purchased and installed by DPW Street Environmental Services. The current estimated procurement cost for a public litter receptacle is \$1,680.00, not including any installation charge.



C. CONTINGENT SCHEDULES

The Companies are proposing two contingent schedules that would be triggered upon future actions by the Companies and corresponding future approvals by the City. These costs are not included in the base rate application.

1. Contingent Schedule 1 – Zero Waste Facility Expansion

Providing the infrastructure necessary for meeting the City of San Francisco's zero waste goals requires the expansion of Recology's Tunnel and Beatty facilities. Achieving zero waste will involve processing all materials, including the trash (black bin) stream. In addition, more advanced processing of the recycling (blue bin) and composting (green bin) streams is envisioned for the future in order to divert more materials from landfill and to ensure sustainable markets for recovered materials. The additional processing operations would take place in new facilities that cannot be accommodated on the existing site. Contingent Schedule 1 addresses the costs associated with the acquisition of additional land necessary for the zero waste infrastructure. The Companies are requesting that reasonable carrying costs for the land investment be included in the rates. The request for reimbursement follows a utility regulatory framework covering land acquired for future use. The proposed contingent rate would become effective once Recology takes possession of the land. The proposed increase related to the land purchase would be adjusted to reflect the actual cost of the acquired land but would not exceed 0.67 percent, or \$0.19 on the 32 gallon black bin rate.

2. Contingent Schedule 2 – West Wing Project

Infrastructure at Recology's Tunnel and Beatty site is space-constrained (as noted above). The Companies have identified one near-term facility-expansion opportunity to provide building space for testing and developing the processing technologies needed to achieve zero waste. This project would involve constructing a west wing next to the existing transfer station. The West Wing Project would provide approximately 13,500 square feet of additional building area. It is envisioned that following construction of the zero waste facilities, the west wing building would be used for either specialized recycling operations or maintenance of mobile equipment used in the transfer station and in the construction-and-demolition recycling facility located on the east side of the transfer station. The Companies are requesting that building costs be added to the rate base following submittal of proof of first payment to the building contractor. The proposed contingent increase would be adjusted to reflect the actual cost of construction but would not exceed 0.16 percent or \$0.04 on the 32-gallon bin rate.



III. CHANGES TO RATE-SETTING METHODOLOGIES

1. Residential Rate Structure

The current residential rate structure was designed to incentivize residents to participate in diversion programs by billing residential customers solely on the basis of trash service volume. During the last rate process, the black bin rate was set to cover all of the estimated costs of the residential collection program at that time, including fixed costs and costs associated with the recycling (blue) and composting (green) streams. As the City moves toward zero waste, it is widely recognized that the refuse rate structure needs to be reconfigured, as higher levels of diversion are accompanied by a shrinking volume of trash. Since the current residential rate structure applies total system costs to that shrinking volume, residential revenues are not sustainable based on the current rate configuration. In addition, since a growing portion of the overall system costs (both collection and processing) are related to the costs of the recycling and composting streams, it is a natural evolution of the rate structure to include charges for those streams now and into the future. The proposed rate structure for residential rate customers includes a nominal charge of \$2.00 per 32 gallons of capacity for the recycling and composting streams. This charge is not expected to impact the amount of recycling and composting service provided. Customers are still incentivized to move towards recycling and composting service as the proposed volumetric charge for these diversion services is substantially less than the proposed volumetric charge for trash service.

In addition to the variable cost changes described above, the Companies are proposing a fixed charge of \$5.00 for each residential dwelling unit to be included in the new residential rates. The fixed charge is intended to cover some of the fixed system costs, including capital costs, administrative costs, and regulatory costs.

Individual residential customer rate increase percentages will vary depending on their respective volume and composition of service. Customers who in the past have received additional diversion services without a specific charge related to that service may see rate increases greater than the base increase. A typical residential customer with three 32-gallon bins will see an increase from \$27.91 to \$34.51 per month.

2. 20-Gallon Rate

The Companies are proposing to charge 20-gallon trash customers at 20/32 (62.5 percent) of the 32-gallon rate, rather than the previously established 77 percent. Consequently, all volumetric charges for residential customers are now proportional. 20-gallon customers will also be subject to the charges for recycling and composting services discussed above. Recycling and composting services are provided to all residential customers, including 20-gallon trash customers, in 32-gallon increments only. In addition, 20-gallon customers will also be subject to the fixed charge for single-family dwellings described above.

The change in the volumetric charge for the black bin described above reduced the overall increase for the 20-gallon customers. A typical residential customer with a 20-gallon black bin will see an increase from \$21.49 to \$24.94. This is intended to partially mitigate the total magnitude of the increase for these customers.



3. Apartment Rate Structure

During the last rate process, apartment customers and apartment rates were conformed to the residential rate structure. At that time, the uniform structure was effective in providing incentives for apartment customers to move toward recycling and composting service. This was important to support the diversion programs during their development stage. Since that time, there has been a substantial increase in recycling for apartment customers. With the maturity of these programs, institutionalization of recycling and composting as accepted practices, and the adoption of the Mandatory Ordinance discussed above, the apartment rate structure needs to evolve in order to continue providing incentives to apartment customers to increase their diversion services while stabilizing the revenue stream and addressing the overall cost of providing the service.

The Companies are proposing to implement a discounted volumetric apartment rate structure patterned after the commercial rate structure adopted in 2006. The new structure includes a fixed charge and equal volumetric charges for all service volume, irrespective of the type of service. These volumetric charges are partially offset by discounts for the proportional amount of recycling and composting service. The details of the proposed apartment rate structure are summarized below.

The proposed structure includes a \$5.00 per dwelling unit fixed charge. This charge is the same as the per unit fixed charge proposed for residential customers. The fixed charge is intended to cover some of the fixed system costs, including capital costs, administrative costs, and regulatory costs.

In addition, the proposed structure includes volumetric charges equal to \$25.51 per 32 gallons of weekday service, irrespective of type of service. This change applies the proposed residential black bin charge to all service volumes. The calculated gross revenue is largely offset by the discounts available for recycling and composting services, as described below.

Discounts of up to 75% of the volumetric charges are calculated from each customer's diversion percentage as a percentage of total volume, less 10%. The first 10 percent of diversion is not eligible for a discount due to the fact that there is a minimum level of diversion service required by the Mandatory Ordinance. This discount structure rewards customers that have more diversion services and encourages others to migrate towards more diversion service. As customers increase their recycling and composting services and their discount percentage, they will be able to partially mitigate the rate increase. As an example, if a customer has 3 equal size bins (one for each of the black, blue and green streams) they have a 67 percent gross volumetric discount rate. The discount they would receive on their volumetric charges is 57 percent (67% – 10%). If the customer added another recycling bin, the discount would become 65 percent (75% – 10%).

To partially mitigate the impact of implementing this structural change, the Companies are proposing to include a two-year cap for all apartment customers. The first year cap would limit the increase under the new structure to 25 percent of current charges, moving to 50 percent in the second year, and finally 100 percent, or the full effect of the structure, in the third year. The caps will allow ample time for customers to embrace the new structure and



adjust service levels to mitigate further rate increases. It is anticipated that changes to service levels and configuration will offset any additional revenue generated by the removal of the caps.

4. Commercial Rate Structure

Commercial rates were reconfigured in 2006 to recognize the desire to move towards zero waste, and encourage commercial customers to help the City reach higher diversion goals through economic incentives. The commercial rates currently include a base component and a variable service component, with a discount available on the variable service component based on the proportion of recycling and composting services to the total service volume. The variable service component of the rate for collection of trash, recycling, and composting is based on total service volume, with a consistent charge across all volume irrespective of the type of service. The discount, taken as a reduction of the volumetric charge, is currently capped at 75 percent. The base rate covers certain system fixed costs outside of direct costs for trash, recycling, and composting service.

The Companies intend to implement some minor changes to the commercial rate structure. The changes are designed to maintain a sustainable revenue stream within the context of the movement towards zero waste, along with creating new incentives to drive further diversion by commercial customers. Commercial revenues are expected to increase as a result of the structural changes. The overall increase will be consistent with the approved residential and apartment increases. The increased commercial revenue is included in the rate model as a reduction of the revenue requirement used to calculate residential and apartment rates.

The fixed component of the rate is moving from 5 percent to 10 percent of each commercial bill. This change moves the fixed cost component closer to the actual fixed cost as a percentage of total cost. The variable component is correspondingly changed from 95 percent to 90 percent of each commercial bill.

Discounts of up to 75 percent of the variable component of each commercial bill is still available based on the proportion of recycling and composting service in excess of 10 percent, up to 85 percent of total volume. The first 10 percent is no longer eligible for a discount since there is now a minimum level of recycling and composting service required by the Mandatory Ordinance. For example, if a commercial customer has one 96-gallon bin for trash, one for recycling, and one for composting service, all collected once a week, then total diversion service volume represents 67 percent. The discount for this customer would be 57 percent (67% – 10%). If a customer has one 2-cubic-yard bin for trash, one 1-cubic-yard bin for recycling, and one 1-cubic-yard for composting, all collected once a week, then total diversion service volume is 50 percent and the discount would be 40 percent (50% – 10%).

5. Zero Waste Incentives

As the City and Recology pursue San Francisco's goal of zero waste, the recycling incentives must evolve to reflect the focus on further processing of materials and alternatives to landfill. For RY2014 and forward, the Companies propose zero waste incentives (ZWI) based solely on landfill disposal tonnage. As with the current diversion incentives, there would be four



operating ratio reward tiers of 0.5% each. For RY2014, the first tier would be equal to projected total disposal tons in Recology San Francisco Schedule E, adjusting to add back the new, and as yet unproven, black stream processing. The fourth tier would be the straight line amount from these tons to a 90% reduction in them by 2020. This recognizes that the final 10% of landfill reduction requires producer responsibility and new and yet to be proven technologies. The other two tiers would be equidistant between the first and fourth tiers.

The collection and distribution of ZWI funds when goals are met would remain the same as for the current diversion incentives. Since disposal reductions and consequently ZWI goals will be more challenging in future years, the Companies propose that when ZWIs are not achieved, the Companies be allowed to propose to utilize those funds for new diversion programs, subject to Department of the Environment and DPW approval.

6. Toxics Collection Incentives

The Companies and the City are currently advancing Extended Producer Responsibility (EPR) policies which require manufacturers of products needing special handling, such as paint, household batteries, and fluorescent lamps, to provide for end-of-life management of these products. To this end, the City is establishing an EPR Fund to receive end-of-life management payments from manufacturers. Under the Toxics Collection Incentives system, the Companies will become eligible for monies collected in the EPR Fund upon meeting performance targets established by the Department of the Environment. The goal of these incentives is to increase collection rates of certain specified materials such as paint, household batteries, and fluorescent lamps.

Table 1 below outlines the targets in terms of tons of each material the Companies will need to collect and the corresponding incentive. The incentives have two tiers and the incentive amount would be received for each tier that is achieved. In order to achieve a tier, the Companies must meet or exceed the tonnage targets for all three material categories. The total amount of the annual incentive will be capped at the dollar amount available in the EPR Fund, plus interest, on the last day of each rate year. If the second tier is not achieved, the Companies would be allowed to propose a program to utilize those funds subject to Department of the Environment and DPW approval.

Table 1 RY		Batteries (tons)	Lamps (tons)	Paint (tons)	Incentive (\$)
14	Tier 1	86	46	407	82,188
	Tier 2	91	49	442	82,188
15	Tier 1	97	52	489	82,188
	Tier 2	103	55	535	82,188
16	Tier 1	109	59	600	82,188
	Tier 2	116	62	665	82,188



7. COLA

In the 2001 Rate Application, the Companies and the Rate Board approved a Cost of Living Adjustment (COLA) to enable the Companies to recover cost increases resulting from inflation over the five-year rate period (2001-2006). This COLA carried over to the 2006-2011 rate period, with modification to include a fuel index. The COLA that applied to the 2006 – 2011 rates had four adjustment components: (1) a labor component based on COLA increases included in the current labor agreements, (2) a Consumer Price Index (CPI) component for certain specified cost items, (3) a California Diesel Fuel Index and (4) a Producer Price Index (PPI) component for other certain specified cost items. A fifth component is for capital lease costs that are not subject to changes once the lease amounts are set.

The Companies propose to apply the COLA annually to the rate periods subsequent to the 2014 rate year until a new rate is set by the City as the result of a new rate proceeding. The COLA is updated to reflect the cost structure in the rate application with weightings of the COLA components adjusted as appropriate. The proposed COLA includes a labor component that is reflective of the current labor agreements, which include annual wage adjustments of between 3 percent and 5 percent. In addition, the Companies propose to modify the COLA by adding a component for health and welfare costs. As is widely recognized, health and welfare costs have increased greatly over the last several years and are expected to continue to rise. In addition, because of the uncertainty related to recent legislative and regulatory changes, the increase in costs could be quite dramatic and are hard to predict. The Companies propose to use a five-year average of historical cost increases, as determined by the Company's actuaries, as the proxy for future cost increases.

The proposed modified COLA is designed to ensure that the Companies fairly recover costs that increase during the periods subsequent to the 2014 rate period until a new rate is established through a new rate proceeding. This annual adjustment will protect both ratepayers and the Companies by increasing or decreasing rates in conjunction with economic trends and will eliminate the need for the Companies to submit an application for changes to the rates in the absence of significant new programs and/or facilities cost.

8. Special Reserve Surcharge

Under the Facilitation Agreement to the Altamont landfill disposal contract, a 1.3 percent surcharge was previously added to bills to provide a fund for unexpected cost increases associated with the contract (i.e., in between rate-setting processes) and to build a reserve for any future liabilities associated with disposal at the Altamont landfill. In the 2010 and 2012 rate processes conducted by the City, a determination was made that (1) the Special Reserve Fund had reached adequate levels to meet its intended uses and (2) the 1.3 percent surcharge should be redirected to the Department of Public Works for its costs associated with solid waste management. In the proposed rates, the City has directed the Companies to include the equivalent of the 1.3 percent surcharge in its rates and to eliminate the surcharge on top of the rates.



9. Landfill Contract

Under the current Rules of Procedure the Companies are required to submit a Notice of Intent to File [a Rate] Application several months before a new rate can take effect. DPW's rules allow shorter notice for applications submitted by the City. The City's landfill capacity under the current Altamont contract may be exhausted before the Companies submit their next rate application. In anticipation of that occurrence, the City may enter into new contracts for waste disposal and landfill transportation. Those new contracts could require the Companies to incur costs greater than those in the current application and consequent rate orders. The Companies therefore ask that a streamlined rate setting procedure be adopted that would allow the Rate Board and the Director of Public Works to order an interim rate adjustment if new contracts trigger additional costs prior to the next full rate proceeding.

10. Discount for E-Bill Customers

To encourage source reduction, E-bill customers will be credited \$1 for each bill presented and paid electronically. Costs associated with providing this discount to existing customers is included in the rate application. Costs for discounts provided to additional customers that sign up for paperless billing will be borne by the Companies, as the cost will be partially offset by cost savings associated with reductions in printing and postage costs and the Companies recognize that it is an important sustainability issue.



IV. PROPOSED RATE STRUCTURE

A. RATE-SETTING BASIS

The rate application is based upon the combined revenues and expenses of the Companies. Revenue requirements and a consequent tipping fee are calculated at Recology San Francisco, with the consequent disposal and processing costs passed through to the Collection Companies. The costs of the Collection Companies are then used to calculate the individual rates charges for collection services.

Revenues and expenses are provided in 2014 dollars.

B. REVENUE REQUIREMENTS

The Revenue Requirement for the Collection Companies represents an increase of 21.51 percent over current revenues received by the Collection Companies. However, the Revenue Requirement only represents an increase of about 9 percent over Rate Year 2011 revenues approved in the 2006 rate-setting process. The major components of the need for additional revenue are (1) the migration of service from trash (black stream) to recycling service (blue stream) and composting service (green stream), (2) recovery of inflationary cost increases, and (3) new programs to support zero waste initiatives and support clean city programs.

C. PROPOSED RATES

As described in Section III, the Companies are proposing that residential rates include (1) a fixed charge, (2) a volumetric trash charge, (3) a volumetric recycling charge, and (4) a volumetric composting charge. The proposed monthly residential rates for weekly weekday collection are:

Fixed Charge = \$5 per household dwelling unit

Volumetric Trash Charge = \$25.51 per 32-gallons of bin capacity

Volumetric Recycling Charge = \$2 per 32-gallons of bin capacity

Volumetric Composting Charge = \$2 per 32-gallons of bin capacity

The proposed monthly apartment rates for weekly weekday collection are:

Fixed Charge = \$5 per household dwelling unit

Volumetric Charge = \$25.51 per 32-gallons of bin capacity

Discount of up to 75% of volumetric charge based on diversion capacity percentage minus 10 percent



All volumetric charges for residential and apartment customers, respectively, are proportional to the 32-gallon rates.

D. BREAKDOWN OF COST COMPONENTS

Following is an approximate breakdown of operating costs for the Companies:

- Labor represents the largest Company cost. Labor and benefits amount to nearly 64 percent of total costs.
- The next largest category is truck-operating costs, which represent approximately 14 percent of total costs. Truck-operating costs include fuel, oil, repair and maintenance, licenses, and City permits.
- Disposal and recycling processing costs (exclusive of labor and benefits costs) account for about 6 percent of total costs.
- Facility operating and maintenance costs represent about 9 percent of costs. Facility costs cover Recycle Central and Tunnel and Beatty, including the iMRF, transfer station, Public Reuse and Recycling Area PRRA, Household Hazardous Waste Collection Facility, scale facilities, administrative offices, and maintenance and related operational facilities.
- The remaining 7 percent of total costs consist of supplies, professional services, contract services, information technology, environmental and safety compliance, human resources, and accounting.

E. BREAKDOWN OF REVENUE INCREASE

The costs described above result in a revenue increase requirement of 21.51 percent. The contribution of major items is as follows:

1. The collection revenue shortfall due to migration to diversion services and the economic slowdown increases the required revenues by 16.1 percent.
2. The recycling revenue shortfall due to lower quantities and lower prices increases the required revenues by 2.1 percent.
3. Migration of existing customers to greater recycling and composting services and service reductions initiated in response to changes in rate structure increases required revenues by 1.6 percent.
4. Additional funding of City Departments and assumption of the abandoned material collection program increases required revenues by 3.2 percent.
5. Zero waste and other initiatives (Brisbane recycling fee, black stream processing, Less-Than-Weekly testing) increase the required revenues by approximately 2.0 percent.



6. Decreases in other expenses decreases required revenues by 2.4 percent.
7. Benefit cost savings decrease the required revenues by 1.1 percent.



V. CONCLUSION

The Companies and the City share a common goal of attaining Zero Waste by 2020. In striving to achieve that goal, the Companies are working to (1) implement a zero waste rate structure that is sustainable as trash bins are minimized and ultimately eliminated and (2) begin the challenging task of trash processing. The Companies believe that the revisions to the rate structure proposed for Rate Year 2014 will create the foundation for a sustainable revenue stream to support the programs as the City and the Companies continue to move towards their joint objectives of zero waste. The rate request for revenue adjustments reflect program and cost changes and satisfy the requirement of the governing ordinance that rates be "just and reasonable."



Recology Sunset Scavenger/Recology Golden Gate
 Rate Application, Schedule B.1
Rate Calculations - Total Revenues

	RY 2014
Operating Ratio Expenses	\$ 152,448,748
Calculated Operating Ratio Expenses	152,448,748
Allowed Operating Ratio	91.00%
Operating Expense with Operating Ratio	167,526,096
<u>Non-Operating Ratio Expense</u>	
Disposal Cost	39,298,185
Processing Cost	52,250,638
Impound Account	14,614,399
<u>Revenue</u>	
Non Rate Revenue	(18,548,561)
Apartment - Migration	1,287,547
Commercial - Migration	2,142,421
Paperless Bill Credit	180,400
Compactor Rate Adjustment	1,686,785
Residential - Change in 20-gal Volumetric Charge	1,257,219
Diversion Incentive (2% OR)	3,764,631
Net Revenue Requirement	265,459,760
Revenue @ Current Rates	218,470,842
Difference	46,988,919
Overall Revenue Increase	21.51%
Operating Expenses with 89% OR	171,290,728
Variance to 91% OR	3,764,631
Net Revenue Requirement @ 89% OR	265,459,760



Recology Sunset Scavenger/Recology Golden Gate
Rate Application, Schedule B.2
Rate Calculations - Residential Revenues

	RY 2014
Operating Ratio Expenses	\$ 152,448,748
Calculated Operating Ratio Expenses	152,448,748
Allowed Operating Ratio	91.00%
Operating Expense with Operating Ratio	167,526,096
<u>Non-Operating Ratio Expense</u>	
Disposal Cost	39,298,185
Processing Cost	52,250,638
Impound Account	14,614,399
<u>Revenue (see Schedule B.3)</u>	
Non Residential Revenue	(148,415,519)
Apartment New Structure	(11,077,076)
Apartment Revenue	(51,501,892)
Residential New Structure - Fixed Charge	(9,795,720)
Residential New Structure -Blue & Green Charge	(8,300,829)
Residential - Change in 20-gal Volumetric Charge	1,257,219
Apartment - Migration	1,287,547
Commercial - Migration	2,142,421
Paperless Bill Credit	180,400
Comptor Rate Adjustment	1,686,785
Diversion Incentive (2% OR)	3,764,631
Net Revenue Requirement	54,917,284
Revenue @ Current Rates	60,089,686
Difference	(5,172,402)
Rate Decrease	-8.61%
Current 32-gallon black bin rate	\$ 27.91
Proposed 32-gallon black bin rate	\$ 25.51
Proposed 32-gallon blue bin rate	2.00
Proposed 32-gallon green bin rate	2.00
Proposed base rate per dwelling unit	5.00
Proposed 32-gallon residential customer rate	\$ 34.51
Operating Expenses with 89% OR	171,290,728
Variance to 91% OR	3,764,631
Net Revenue Requirement @ 89% OR	54,917,284



Recology Sunset Scavenger/Recology Golden Gate
Contingent Schedule 1 - Zero Waste Facility Expansion
 Rate Application, Schedule B
Rate Calculations - Total Revenues

	RY 2014
Operating Ratio Expenses	\$ -
Calculated Operating Ratio Expenses	-
Allowed Operating Ratio	91.00%
Operating Expense with Operating Ratio	-
<u>Non-Operating Ratio Expense</u>	
Disposal Cost	627,617
Processing Cost	826,044
<u>Revenue</u>	
Diversion Incentive (2% OR)	-
Net Additional Revenue Requirement	1,453,661
Revenue @ Current Rates	265,459,760
Average Rate Increase	0.55%
Operating Expenses with 89% OR	-
Variance to 91% OR	-
Net Revenue Requirement @ 89% OR	1,453,661

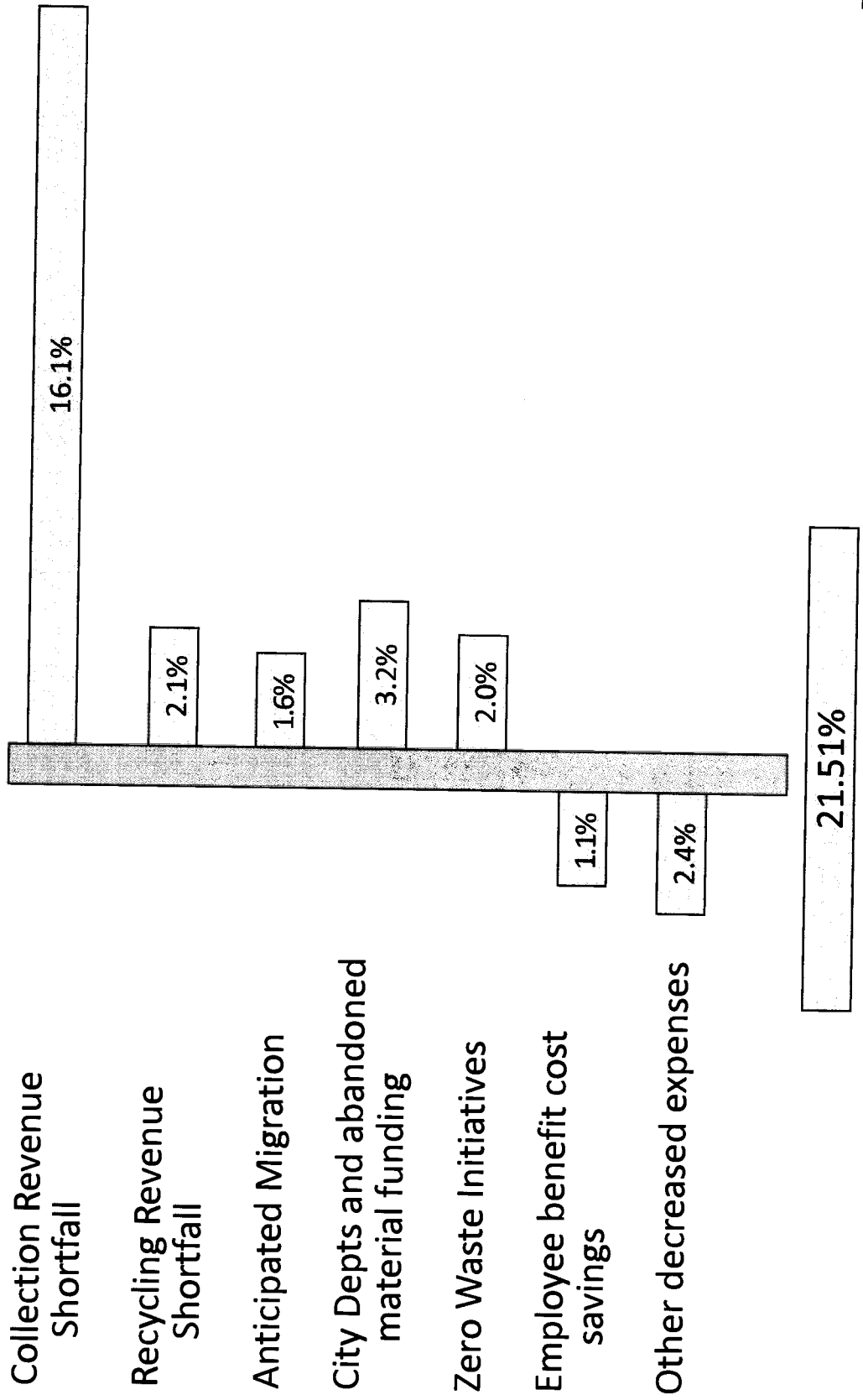


Recology Sunset Scavenger/Recology Golden Gate
Contingent Schedule 2 - West Wing Project
 Rate Application, Schedule B
Rate Calculations - Total Revenues

	RY 2014
Operating Ratio Expenses	\$ -
Calculated Operating Ratio Expenses	-
Allowed Operating Ratio	91.00%
Operating Expense with Operating Ratio	-
<u>Non-Operating Ratio Expense</u>	
Disposal Cost	147,675
Processing Cost	194,363
<u>Revenue</u>	
Diversion Incentive (2% OR)	-
Net Additional Revenue Requirement	342,038
Revenue @ Current Rates	265,459,760
Average Rate Increase	0.13%
Operating Expenses with 89% OR	-
Variance to 91% OR	-
Net Revenue Requirement @ 89% OR	342,038



Components of Rate Increase



Exh. 5

Exhibit 5





SF Collection Revenues: Projections and Actuals

RY09 – RY14 (dollars in millions)

Oct. '08 Recession begins → Oct. '09 Mandatory Recycling begins

	RY 09	RY 10	RY 11	RY 12	RY 13	RY 14
Revenue Projected in 2006 Rate App. (before COLA) ¹	207	211	215			
COLA Adjustments (cumulative) ²	7.5%	8.3%	13.3%			
Revenue Projected in 2006 Rate App. (adjusted for COLA)	222	229	243			265
Actual Revenue from Collection Operations ⁴	220	216	223	217	216	218
Revenue Shortfall vs. 2006 Projections	2	13	20			47
						Revenue Requirements in 2013 Rate Application (expenses plus OR) ³
						Revenue in 2013 Rate Application Before Rate Increase
						Additional Rate Revenue Required

¹ 2006 Rate Application, Sch. B1.

² The COLA adjustments in each year were: 3.0% in RY 08, 4.4% in RY 09, 0.7% in RY 10, and 4.6% in RY 11.

³ 2013 Rate Application, Sch. B1.

⁴ 2013 Rate Application, Sch. F1. For consistency of presentation, collection revenue does not include categories of revenue not included in the 2006 projections.



Residential Customer Downsize Black Bin

<u>SAMPLE 1</u>	Size	Quantity	Current Rate	New Rate
• Trash	32	1	27.91	25.51
• Recycling	32	1	0.00	2.00
• Composting	32	1	0.00	2.00
• Base Unit Charge		1	0.00	5.00
Total New Rate				<u>\$34.51</u>
Rate Increase (monthly)				<u>\$ 6.60</u>

<u>SAMPLE 2</u>	Size	Quantity	Current Rate	New Rate
• Trash	20	1	21.49	15.94
• Recycling	32	1	0.00	2.00
• Composting	32	1	0.00	2.00
• Base Unit Charge		1	0.00	5.00
Total New Rate				<u>\$24.94</u>
Rate Increase (monthly)				<u>\$ 3.64</u>

Rate Decrease from changes in service < \$ 2.97 >





Residential Customer

Downsize Black Bin & Upsize Blue Bin

<u>SAMPLE 3</u>	Size	Qty	Current Rate	New Rate	Size	Adj New Rate
• Trash	32	1	27.91	25.51	20	15.94
• Recycling	32	1	0.00	2.00	64	4.00
• Composting	32	1	0.00	2.00	32	2.00
• Base Unit Charge		1	0.00	5.00		5.00
Total New Rate			<u>\$27.91</u>	<u>\$34.51</u>		<u>\$26.94</u>
Rate Increase (monthly)						
Rate Decrease from change in service						
						< \$ 0.97 >



Residential Customer (1-5 Units)

Downsize Black Bins

<u>SAMPLE 4</u>	Size	Qty	Current Rate	New Rate	Size	Adj New Rate
• Trash	96	1	83.73	76.53	64	51.02
• Recycling	96	1	0.00	6.00	96	6.00
• Composting	64	1	0.00	4.00	64	4.00
• Base Unit Charge		3	0.00	15.00		15.00
Total New Rate			<u>\$83.73</u>	<u>\$101.53</u>		<u>\$76.02</u>
Rate Increase (monthly)				\$ 17.80		
Rate Decrease from changes in service						
< \$ 7.71 >						



Apartment Customer (once a week service)

Trade in a Black Bin for a Blue Bin

SAMPLE 5	Size	Qty	Current Rate	New Rate	Qty	Adj New Rate
• Trash	96	2	167.46	153.06	1	76.53
• Recycling	96	2	0.00	153.06	3	229.59
• Composting	64	1	0.00	51.02	1	51.02
• Base Unit Charge		6	0.00	30.00	6	30.00
• Diversion Discount				-167.86		-243.43
• Cap Credit (year 1)				-9.95		0.00
Total New Rate			<u>\$167.46</u>	<u>\$209.33</u>		<u>\$140.71</u>

Diversion percentage	57%*	79%*
Discount percentage	47%	69%
* Diversion percentage = $\frac{\text{Recycling} + \text{Composting (gal.)}}{\text{Trash} + \text{Recycling} + \text{Composting (gal.)}}$		
Note: Does not include premium surcharges (key, elevation and distance).		



Apartment Customer

Reduce Frequency of Service

<u>SAMPLE 6</u>	Size	Qty	Freq	Current Rate	New Rate	Freq	Adj New Rate
• Trash	96	1	6	565.18	516.58	5	382.65
• Recycling	96	1	6	0.00	516.58	5	382.65
• Composting	64	1	6	0.00	344.39	5	255.10
• Base Unit Charge		25		0.00	125.00		125.00
• Diversion Discount				---	-730.10		-540.80
• Cap Credit (year 1)				---	-65.97		---
Total New Rate				<u>\$565.18</u>	<u>\$706.48</u>		<u>\$604.60</u>

Diversion percentage	63%*
Discount percentage	53%
* Diversion percentage = $\frac{\text{Recycling} + \text{Composting (gal.)}}{\text{Trash} + \text{Recycling} + \text{Composting (gal.)}}$	
Note: Does not include premium surcharges (key, elevation and distance).	



Apartment Customer

Reduce Frequency of Service

<u>SAMPLE 6</u>	Size	Qty	Freq	Current Rate	New Rate	Freq	Adj New Rate
• Trash	96	1	6	565.18	516.58	5	382.65
• Recycling	96	2	6	0.00	516.58	5	382.65
• Composting	64	1	6	0.00	344.39	5	255.10
• Base Unit Charge		25		0.00	125.00		125.00
• Diversion Discount				---	-730.10		-540.80
• Cap Credit (year 1)				---	-65.97		---
Total New Rate				<u>\$565.18</u>	<u>\$706.48</u>		<u>\$604.60</u>

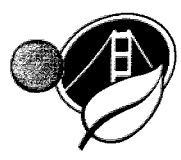
Diversion percentage	63%*
Discount percentage	53%
* Diversion percentage =	$\frac{\text{Recycling} + \text{Composting (gal.)}}{\text{Trash} + \text{Recycling} + \text{Composting (gal.)}}$
Note: Does not include premium surcharges (key, elevation and distance).	







The following is a summary of the Impound Account-funded projects that are planned for fiscal 2013 – 2014, the period of time covered by the 2013 Refuse Rate Proceedings. The Department of the Environment Impound funds are used to fund projects in four areas: Zero Waste, Toxics Reduction, Green Building and Environmental Justice.



SF Environment
Our home. Our city. Our planet.
A Department of the City and County of San Francisco

100% postconsumer recycled.

SFE 2013-2014 Impound Account Funded Projects Summary

ZERO WASTE PROGRAM

The program target is to decrease landfilling by 50,000 tons (13%) a year to stay on track for achieving San Francisco's goal of zero waste by 2020. Zero Waste has long been one of San Francisco's most successful and world-renowned government programs and crucial to getting many top green city rankings. We have achieved 80% diversion. More importantly, we cut waste to landfill in half over the last ten years, extending the life of our landfill capacity and saving ratepayers from landfill-related rate increases. For the past three years, we have set records for the least amount of waste to landfill. However, since April of 2012, our disposal amounts have started to increase slightly, as the economy has started to pick back up. Concerted effort is needed to keep our progress on track, in order to make sure that we meet our waste reduction goals.

Mandatory Recycling and Composting: Ongoing

The Department of the Environment is responsible for compliance with the Mandatory Recycling and Composting Ordinance in all three sectors - City government, commercial and residential. We also work with the Department of Public Works (DPW) and Department of Public Health to reduce the number of residences and businesses not paying for adequate refuse service. Although almost all businesses and residents have recycling collection service in San Francisco, we have to monitor, reinstall and improve recycling programs in such a dynamic city on a daily basis.

In FY 14, we need to achieve composting collection compliance with the last 3,000 commercial accounts (out of a total of 15,000 accounts) that do not yet participate, as well as the last, most-challenging, apartment buildings.

Neighborhood Composting Campaign: Ongoing

In addition to ensuring that all residents and businesses have recycling and composting service, a key element for our Zero Waste program's success is proper utilization of the system. The residential composting campaign ensures maximum participation in composting food scraps and other organics. This includes neighborhood-tailored campaigns integrating social media, advertising, door to door education and neighborhood/community events promoting the how-tos and benefits of composting. This campaign can have a significant impact on participation. For example, when the Department conducted comprehensive door to door canvassing in the Bayview, composting participation doubled, and diversion increased by 50% in the neighborhood.

Zero Waste Curbside Auditing Project: Ongoing

The Zero Waste Curbside Auditing project collects data and information to increase residential awareness of and participation consistent with the Mandatory Recycling and Composting Ordinance. Although the Mandatory Recycling and Composting Ordinance was enacted in 2009, confusion about what materials go into each bin continues to be a barrier to full participation. In order to increase participation by residents, staff audit residential recycling, composting, and landfill bins at curbside prior to pick-up to identify compliance with the ordinance. Bin tags are issued to denote contamination and visually educate residents. Multiple visits provide data on compliance and contamination and provide the basis for dealing with specific issues of contamination or misunderstanding about material sorting that then can be adequately addressed and increase participation in the program.

Green Apartments: Ongoing

Setting up and utilizing composting programs in multi-family housing presents different and unique challenges than those in single family homes. This project is designed to increase composting participation in the 8,700

apartment buildings in San Francisco and to address those challenges. The work includes face-to-face discussions with residents and property managers (in 4 languages – English, Spanish, Chinese and Tagalog) about the benefits of complying with the Mandatory Recycling and Composting Ordinance.

Commercial Business Outreach: Ongoing

Combining educational outreach and technical assistance to businesses, this project helps thousands of local businesses better understand the ordinance and the variety of ways to maximize participation and waste diversion as well as save up to 75% on their refuse bills.

Material Processing: Ongoing

Even with a convenient program, extensive public education, financial incentives and mandatory enforcement, people will still put things in the wrong bins. Although we've been successful to date on achieving a high waste diversion rate (80%), over half of the material in the average black landfill bin is recyclable or compostable in our current system. Capturing all this material would get us to about 90% diversion.

While maximizing source separation for highest and best use, we're also working with Recology on developing low-temperature, mechanical/biological processing to recover additional material from the trash stream. Recology is researching and testing anaerobic digestion to produce truly renewable biogas to power the refuse collection and transfer fleet. The Department of the Environment and Recology are in a public/private, research and development partnership to remain at the forefront of a green tech revolution in material recovery and hope to build a new state of the art, integrated zero waste facility by 2020.

Construction and Demolition (C&D) Debris: Ongoing

Increased economic activity is resulting in more construction and demolition debris, the heaviest and bulkiest material in the waste stream. Our target is to divert at least an additional 7,000 tons in 2013-2014. Through this program, we review plans for City projects, and under the Construction and Demolition Debris Recovery Ordinance, approve plans and provide technical assistance for full demolitions citywide. More than 450 C&D transporters and 12 C&D facilities have been registered.

In addition, the Department of the Environment monitors the registrations to make sure they are current. We collaborate with the Department of Building Inspection (DBI) to ensure contractors and others are only using these service providers.

Our registered transporters and facilities will be critical in the event of a major disaster such as an earthquake. Having a fully functioning construction and demolition debris network with registered transporters and facilities will ensure that debris is recovered instead of being landfilled after a major earthquake.

Because many of the transporters and contractors are regionally located and speak multiple languages, many are unaware of ordinance requirements, making it essential to have technical assistance in Spanish and Chinese. This includes phone calls, helping unregistered transporters through the registration process, training presentations and construction site audits.

Checkout Bags: Ongoing

Bags and plastic film are among the biggest problem materials for litter abatement, recycling and composting. Through a selected sample, we've observed high levels of compliance with the expanded check out bag ordinance, with over 90% of stores charging for bags and more than 80% not using "single-use" plastic bags. There has also been a large decrease in the number of compostable or paper checkout bags being distributed. Over 9,000 stores are currently covered by the ordinance and 5,000 food establishments will be

added in 2104. The Department will continue to raise awareness and provide assistance to these businesses as the transition continues.

San Francisco business owners are provided with resources to comply with the ordinance through bag vendor fairs, providing vendor contacts and creating and distributing educational material. Additionally, the team supplies San Francisco residents with free reusable canvas bags and encourages them to bring their own bags, reduce waste, and avoid the 10 cent charge.

Food Service Waste: Ongoing

Although polystyrene foam foodware has essentially been eliminated, we have to regularly monitor food establishments and make compliance improvements, given the challenges around small foodware items and front of the house separation. We're integrating this effort with bag ordinance compliance assistance in anticipation of that going into effect in this business sector.

City Government: Ongoing

We work with all departments, especially the Office of Contract Administration (OCA), to help ensure compliance with the Resource Conservation and Environmentally Preferable Purchasing Ordinances, and DPW to increase recovery of abandoned and littered material and compost their street sweepings—we recently started composting street sweepings from most of San Francisco. Our department manages the City's Virtual Warehouse and scrap metal contract. Also we have built a network of 238 departmental zero waste coordinators and train over 1,000 City employees on zero waste each year. Our work results in over \$1 million in City revenue or cost avoidance annually.

Refuse Rate Process: Periodic

We assist DPW in preparing for and completing complex refuse rate processes. These processes set not just the rates people pay, but also incentives and program funding vital to getting us toward zero waste.

Other Projects: Ongoing

At the top of the hierarchy, we promote source reduction and reuse (e.g., eliminating unnecessary supply purchases, encouraging paperless systems, pushing double-sided printing and copying, supporting food redistribution). Our grant program to nonprofits grows, diversifies and strengthens the recovery (especially reuse) infrastructure in important ways that would not have occurred otherwise. To close the loop, we promote buying recyclable/compostable products with recycled content. In general, we cultivate consumer and producer responsibility and improve material efficiency and resource conservation. This often requires engaging in local and state legislative and regulatory policy development.

The last 10% landfill diversion requires changing problem product design and handling, and developing markets for things like assembled and composite items, furniture, carpet and upholstery, textiles and apparel, roofing, treated and painted wood, disposable diapers, and animal feces and litter. Programs can be created for such materials, but it requires funding and the positive involvement of manufacturers and retailers. More producer responsibility policies are needed to engage brand owners further in redesign and recovery to achieve true zero waste.

Zero Waste Event Auditing: Ongoing

Outreach for events focuses on reaching out to event producers with upcoming events in San Francisco by coordinating primarily with the Department of Parking and Traffic and Recreation and Parks Department. Staff calls event producers and go through a zero waste check-list with them, providing additional support and resources for producers that do not yet have a zero waste plan. This ensures that a zero waste plan will be

incorporated into events. In addition to the phone calls, the program also provides training, contact info for event greeners and signage. On average, we assist more than 75 events with their zero waste efforts annually.

Food to Flowers! Lunchroom Composting Program (F2F!): Ongoing

As San Francisco aims to achieve Zero Waste by 2020, it is imperative that schools adopt successful composting and recycling programs. To that end, F2F! reaches K-12 public and private city schools promoting waste diversion using the three bin system. In addition to promoting classroom recycling, the F2F! program places green bins in school cafeterias so students can compost their leftover lunches and food soiled paper. This comprehensive program involves staff meetings, planning meetings, in-class composting monitor trainings, school wide assemblies, classroom curriculum, program materials, lunchroom monitoring, follow-up waste assessments and reporting back to schools. We work closely with the San Francisco Unified School District (SFUSD) and Recology to ensure that schools are supported in their waste diversion efforts and we also provide classroom recycling and composting bins and compostable liners as needed. In FY 2011-2012, we reached more than 12,500 students and diverted more than 5,000 tons of organics from schools.

School Education Zero Waste Facilities Fields Trips: Ongoing

Since experiential education can greatly support student understanding, we provide 85-100 free field trips a year for Grades 2-12. These field trips give students the opportunity to see reuse, recycling and composting first hand, which further inspires their waste diversion efforts at school and at home. For teachers to be awarded a free field trip for their class, they need to attend our annual Teacher Workshop which promotes our programs and materials, and models curriculum we have on waste diversion for them to use in the classroom. Field Trip sites include:

Transfer Station + Pier 96 (34 trips) Students visit the Transfer Station to see where our trash goes – and what it looks like – before being sent to the Landfill. They then take a tour of Pier 96 to see how recycling happens. All Transfer Station field trips come with a pre-trip classroom presentation during which SF Environment staff goes into the classroom to teach children about natural resources and how reducing, reusing, recycling and composting can help protect nature. This pre-trip presentation supports zero waste and prepares students for their field trip experience.

Art Lab (6 trips) Students learn about the art of reuse by working with artists from Recology's Artist in Residence Program to make art from items sent to the Transfer Station.

Scroungers Center for Reusable Art Parts (SCRAP) (10 trips) Students learn about the art of reuse when they go to SCRAP. There, they see a warehouse full of sorted items that would've been sent to the landfill if not for SCRAP. These items then get used as art materials for students to turn into sculptures during their field trip.

Garden for the Environment (15 trips) Students visit Garden for the Environment to learn about backyard composting and the decomposition process. They get up close to investigate and study decomposers, and learn how compost builds soil and helps gardens grow.

Heron's Head Park (10 trips) Students learn the concept of environmental justice and how toxics impact our land, air and health. They then embark on restoration work to support the native plants at Heron's Head Park, and learn how native habitat restoration invites back the native species that once called that habitat home before it was polluted or destroyed.

Botanical Garden (10 trips) Students learn concepts of climate change and plant biodiversity and how composting in the backyard or with the green bin, can help reduce climate change and support healthy soils that in turn promote biodiversity.

RecycleWhere: Ongoing

Recyclewhere.org is the enhanced open source regional recycling database created by SF Environment in partnership with other Bay Area municipalities to offer comprehensive recycling information for thousands of items and materials. With more than forty thousand searches a year, RecycleWhere's predecessor was one of San Francisco's most successful internet based directories. Promoting RecycleWhere will be a key part of our zero waste strategy moving forward.

TOXICS REDUCTION PROGRAM

The goal of the program is to develop convenient and safe recycling and disposal options for common hazardous wastes generated by businesses and residents. San Francisco has an extensive network of more than 180 retail drop off sites, VSQG program for businesses, home pick up program for residents and a public disposal site. Toxics program staff are responsible for maintaining this infrastructure, which includes training service providers, verifying compliance with applicable laws, and collecting metrics. For fiscal 2013-2014, the following programs will be implemented:

Very Small Quantity Generator Awareness Campaign (VSQG): Launch in 2013. The VSQG program targets small businesses of all kinds that need to dispose of hazardous waste, and offers instruction and options for legal and safe recycling or disposal. In 2011, 188,939 pounds of hazardous waste was collected from 735 businesses.

Residential Collection: Ongoing. In conjunction with our zero waste outreach efforts, we inform residents on what to do with waste that does not belong in green, blue, or black bins. The focus is to motivate residents to either take their hazardous or toxic items to a drop off location or utilize the home pick up program. In FY 2011, we collected 1,438,785 pounds of hazardous waste through the household hazardous waste programs (retail drop off, home pick up, HHW facility drop off) and picked up toxics from 1900 residential locations.

Toxics Disposal for Special Wastes: The Toxics program develops programs for certain types of household hazardous wastes that are highly toxic to the environment and/or are disposed off in large volumes. Two examples of campaigns around special wastes include the Used Oil program to encourage residents to properly recycle their used motor oil, and the safe medicine disposal program, to encourage proper disposal of unwanted medicine. In the coming fiscal year, program staff will work on expanding each of these programs and increasing public awareness:

Used Oil Recycling: Ongoing. Identify (independent, often unlicensed) mechanics that generate large amounts of used motor oil and ensure recycling of their oil, increase the number of collection sites where used motor oil can be dropped off, partner with SFUSD's Conservation Connection to increase awareness among students about the impacts of incorrect disposal of used oil, and conduct trainings at automotive classes to prospective mechanics. Through neighborhood walkthroughs in FY 2011-12, we reached 247 do-it-yourselfers, 169 shade tree mechanics and recycled 1,014 gallons of used oil and 184 used motor oil filters.

Check Your Number Campaign: The campaign is designed to "bust" the myth that a car's oil needs to be changed every three thousand miles. Instead this campaign is asking drivers to enter their car's make and model into the web tool to see how often they should be changing the oil.

Marina Campaign: To prevent oil pollution of the bay, we dispatch staff and volunteers to "dock walk" and talk to boaters about proper disposal of their used motor oil at our marine facilities (often on weekends).

Drug Take Back Program: Staff will continue to implement the medicine disposal program, which includes training staff at retail sites and participating police stations, monitoring the sites, and collecting metrics on types and volumes of medicine collected. This first of its kind program to keep medicines out of our water and landfill, and requires significant staff resources. In just 6 months, we collected over 6,000 pounds of unwanted medicine and prevented these medicines from being abused or incorrectly disposed.

Toxics Reduction: The main focus of this effort is to reduce the usage of toxic chemicals by conducting scientific analyses to determine safer alternatives and then promoting the use of these alternatives. Program staff implement toxics reduction campaigns by business type, chemical and/or product type. A campaign that will be launched (across city agencies, businesses and residents) in 2013 is a safer disinfection campaign to limit use of disinfectants and promote the use of only safer disinfectants when disinfectants are needed.

Toxics Reduction Campaign for Residents: The goal is to provide actions that residents can take to reduce their exposure to toxic chemicals. Preliminary targets include vulnerable populations such as babies and women of child bearing age. An example would be to increase the use of paint that contains no VOC content for better indoor air quality and prevention of respiratory illnesses or asthma.

Healthy Nail Salons: This campaign is designed to recruit nail salons into the program in order to positively impact the health and safety of nail salon workers. The second phase will increase awareness of the program so consumers will choose nail salons that have implemented these measures. In 2012, we conducted multi-lingual outreach on best practices to all the 200+ nail salons in San Francisco and recruited 22 nail salons to become participants in our Healthy Nail Salon program. We are working with EPA to test the air quality in these salons before and after implementation of program criteria (safer products, practices and ventilation).

Green Cleaning Program: The goal of this program is to train custodial staff on green cleaning practices that protect their health by reducing their exposure to toxic cleaning products and prevent environmental pollution. The green cleaning program will create multi-lingual training materials for custodians and will conduct outreach to cleaning businesses about these materials. In 2012, Spanish and Cantonese green cleaning training materials were created through a stakeholder process. The program is now preparing to train 200 custodians of local businesses enrolled in the program.

Green Business Promotional Campaign: The Green Business Program assists businesses in implementing sustainability practices and recognizes them for their efforts. Program staff provides customized support to local businesses and help the City meet its sustainability goals. In addition to providing technical assistance to businesses, staff will also conduct outreach to increase brand awareness and recruit more businesses. We currently have more than 300 businesses that are either recognized or actively pursuing recognition. Through the green business practices implemented by these businesses, in FY 2011-12 alone, we reduced GHG emissions by 30,199,263 pounds and saved 33,847,356 KWH of energy as well as 4,163,702 gallons of water.

Toxics Reduction among municipal agencies (SFAproved.org): City employees are required to buy safer products and our role is to help all City employees identify and choose safer products (ranging from office paper to light bulbs and cleaners). Program staff will continue to conduct scientific analyses to identify safer products (that do not contain ingredients that cause cancer, reproductive toxicity or environmental pollution). In addition, staff works with OCA to incorporate these green specifications into City contracts. Examples of categories of green specifications developed include lamps, cleaning products, and office supplies. Staff also develop and maintain a directory of green products at SFAproved.org for City purchasers to find green products. The directory contains over 1,000 green products. Outreach for this program is customized by City department.

Green Christmas: The Green Christmas program is an annual event that features live Green Christmas tree rentals for residents. The program supports our city's urban forestry program, and keeps trees out of the waste stream.

Urban Orchards Campaign: As part of the carbon fund, SFE is working with FUF to promote the urban orchards program, targeting land owners who are willing to have fruit trees planted on their property and allow public access to them.

GREEN BUILDING PROGRAM

The goal of the program (municipal and private) is to provide policy support, program development, technical assistance and training, and monitor compliance of San Francisco's Environment Code Chapter 7: Green Buildings.

Municipal Green Buildings Policy

Green Building Task Force: Ongoing. Chair Municipal Green Building Task Force with 12 city departments represented to advise SF Environment on Green Building policy, and share Green Building best practices and lessons learned across City departments.

San Francisco Environment Code Chapter 7 Implementation: Ongoing. LEED Gold certification is required for all municipal new construction and major renovation projects ≥ 5000 square feet. Chapter 7 requires a minimum 75% diversion rate for construction and demolition debris for all municipal projects. Laguna Honda Hospital achieved an 81% C&D diversion rate. SFO Terminal 2 achieved a 91% rate. Chapter 7 was adopted in 1999, updated in 2004 to require LEED Silver certification for municipal projects, and updated in 2011 to require LEED Gold.

San Francisco Environment Code Chapter 5 implementation: Ongoing. Use non-PVC plastics in order to reduce procurement of halogenated organic compounds in municipal construction projects.

Green Building Training and Education

City Staff Training: Ongoing. Provide regular training sessions for city design professionals focused on responsible resource utilization, building reuse, recycled content building materials, toxic materials reduction, operational recycling, energy and water efficiency, etc. Goal = 9 sessions FY13-14.

LEED Accreditation Support: Ongoing. Assist 124 LEED Accredited Professionals on City staff to achieve and maintain their accreditation and USGBC chapter membership.

Green Building Technical Assistance

Oversee LEED Certification: There are 63 municipal green building projects have LEED certification including SF General Hospital, Public Safety Building, Libraries, Fire Stations, Museums, Airport Terminals and others:

	Gross Area (sf)	Total Project Budgets
Municipal LEED certified projects 2007-2012	3,667,684	\$1,809,919,749
Projects Completed, LEED Certification Pending 2013-2014	972,748	\$236,360,222
Municipal Green Building Projects Under Construction 2007-2015	1,509,055	\$1,387,352,778
Municipal Green Building Projects in Planning or Design 2010-2017	2,665,260	\$922,696,476

Communicate with municipal project architects, engineers, project managers and consultants to advise and consult on City requirements and best practices.

- Manage and administer professional services contracts for as-needed Green Building Technical Services available to all City departments.

Private Sector Green Building Policy Development and Implementation

San Francisco's Green Building Ordinance (SF Building Code Chapter 13C) Implementation. Ongoing. The ordinance requires large commercial buildings to divert more than 75% of construction and demolition waste from landfill and requires the use of environmentally preferable materials which reduce toxics in the waste stream and reduce occupant exposure to harmful chemicals. The policy also improves the energy, water, and resource efficiency of all building construction projects in San Francisco. We work in collaboration with DBI on implementation.

- Provide technical evaluation of the impact of 2013 California Building Code (CBC, aka Title 24 Parts 1 through 11) on San Francisco's green building requirements.
- Gather stakeholder input to inform code updates harmonizing San Francisco codes to the 2013 CBC (effective January 1, 2014)
- Update regulations as needed (Administrative Bulletin, submittal forms, and summary tables).
- Deliver training and technical support for DBI staff enforcing green building requirements, and assist design and construction practitioners with compliance.
- Streamline implementation of related local code requirements (construction and demolition debris recycling requirements; water conservation/metering; stormwater management; recycled water and gray water).
- Green building submittal review.
- Quality assurance and tracking of green building components of building permit submittals and addenda.
- The policy minimizes waste through re-use of buildings and building materials, C&D waste diversion, and use of recycled content materials.
- Participate in the Green Building Subcommittee of the Code Advisory Committee.
- Coordinate Green Team meetings for green building Priority Permit projects with Planning Department and DBI.
- Manage Citywide contract to provide ongoing technical support to DBI and Planning Department as needed.
- Deliver Chapter 13C training to ensure practitioners are prepared to meet and exceed local requirements.
- Coordinate GreenPoint Rater training in San Francisco to ensure availability of green building special inspection services.
- Partner with local organizations (USGBC-NCC, SPUR, BOMA-SF) to offer 20 or more continuing education events per year.
- Continue municipal Green Building Task Force and training programs for City building professionals.
- Continue monthly "Green Building Professionals Guild" trainings at Department of the Environment.

Existing Commercial Buildings Energy Performance Ordinance Ongoing

The Existing Commercial Buildings Energy Performance Ordinance, signed by Mayor Ed Lee in 2011, requires commercial buildings over 10,000 square feet to:

- Annually benchmark energy performance, which will show how the building's energy use compares to similar buildings and track improvement. US EPA has demonstrated that buildings which track energy consumption have reduced total consumption by 7%, with significant economic benefit through reduced utility costs.
- Obtain an energy audit once every five years.
- File the results with the Department of the Environment, which is required to make benchmark results available to the public.
- Achieve >90% compliance with Existing Commercial Buildings Energy Performance Ordinance and increase participation in GreenFinanceSF building retrofit financing program, both of which will:
- Provide owners the information and tools they need for effective decisions, identifying specific cost-effective opportunities to improve building operations, reduce energy waste, support the growth of efficient technologies. Buildings account for 56% of greenhouse gas emissions in San Francisco, which are reduced by improving energy efficiency.
- Encourage building owners to take the further step of achieving LEED for Existing Buildings Operations & Maintenance certification (LEED EBO&M), which recognizes exemplary management of waste, energy, and water. Buildings that meet and exceed the Existing Commercial Buildings Energy Performance Ordinance, Commercial Water Conservation Ordinance, and composting and recycling requirements are well on their way to qualifying for national recognition via LEED EBO&M.
- Help building owners control energy costs - typically the largest controllable operating expense for a commercial building.
- Ensure energy retrofit projects comply with all applicable standards for construction debris recycling and hazardous materials disposal.

GreenFinanceSF is a Property Assessed Clean Energy (PACE) Program

- Financing secured by lien/assessment on property and paid off via property taxes.
- GreenFinanceSF provides financing for energy efficiency, renewable energy & water conservation projects for existing commercial buildings.
- Federal grant funds have been obtained by the program to provide a debt service reserve fund, which helps cover payments to project investor in the case of late payments by property owner.
- These grants stipulate compliance with federal waste management plan requirements for retrofit projects.

ENVIRONMENTAL JUSTICE PROGRAM

Reduce Diesel Pollution: Ongoing

In collaboration with San Francisco Clean Cities Coalition, the Environmental Justice (EJ) program identifies diesel fleet owners and operators in the Southeast area of San Francisco to reduce diesel air pollution. This is done by performing outreach and working with non-profit community organizations to reduce idling of diesel vehicles and encourage participation in federal, state and regional incentive programs that support conversion to cleaner engines and cleaner fuels, including biodiesel fuel and compressed natural gas.

Reduce Household Hazardous Wastes: Ongoing

Working in collaboration with the Toxics Reduction program, EJ program performs outreach to low-income residents to raise awareness and participation of the household hazardous waste collection services and

promote use of safer, less-toxic household cleaning products. Presentations are made at senior centers, community meetings and special events.

Promote Integrated Pest Management: Ongoing

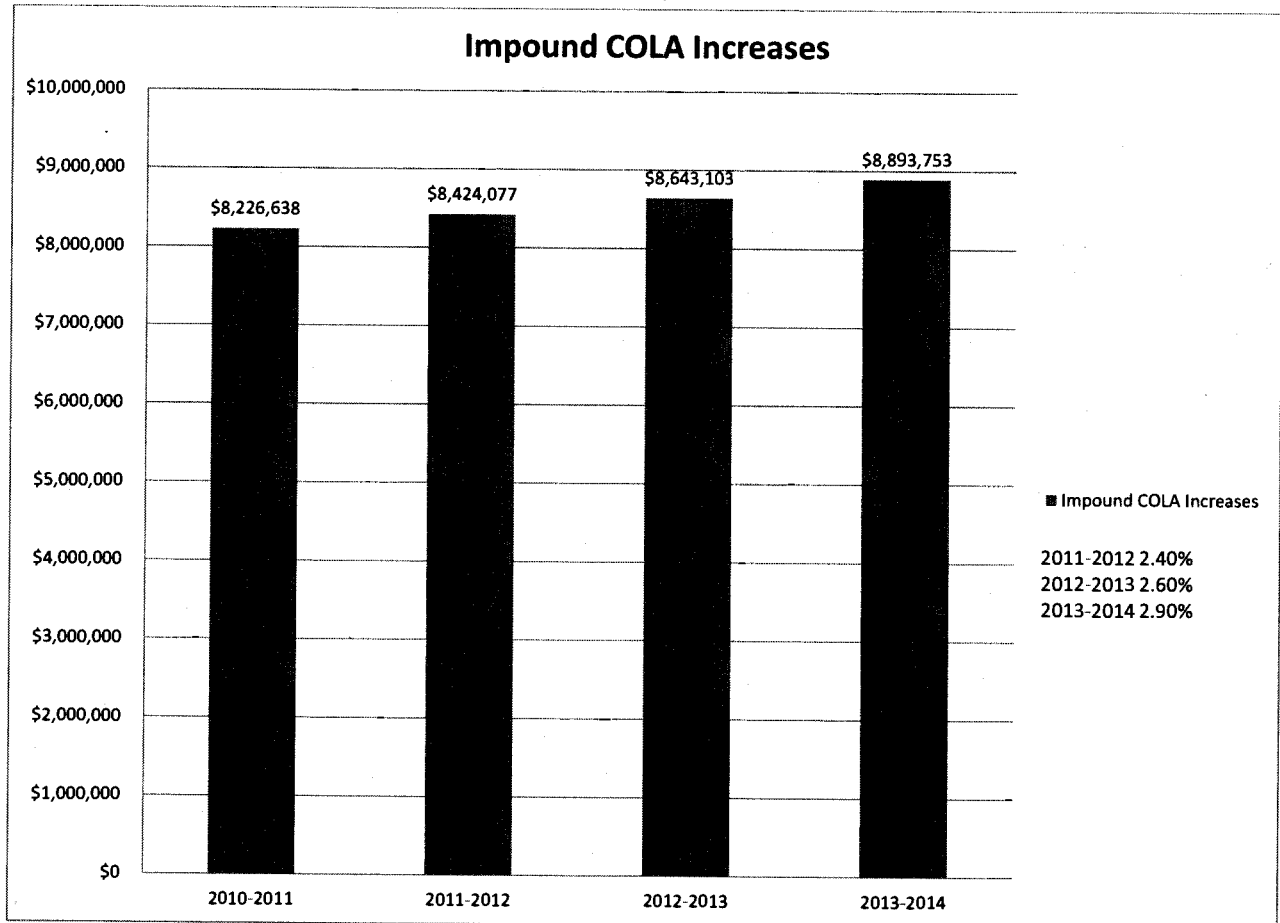
The EJ program performs outreach to San Francisco Housing Authority (SFHA) staff, HOPE SF developers and low-income tenants to promote Integrated Pest Management (IPM). This effort seeks to address asthma disparities burdening low-income families in the Southeast area by reducing exposure to toxic pesticides and pest infestations that can cause or trigger asthma. The EJ program will provide training workshops for SFHA staff and tenants and perform door-to-door outreach at SFHA sites, including Hunters View, Alice Griffith, and Sunnydale housing development sites.

Reduce Toxic Pollution: Ongoing

The EJ program provides educational workshops and training to community groups and local residents, to reduce pollution and increase awareness of environmental services and programs in the city's most vulnerable neighborhoods. This effort includes performing outreach to low-income tenants at SFHA housing development sites and conducting workshops and training at community meetings. This work also involves supporting local efforts to reduce toxic pollution at brownfield sites in the Southeast area of San Francisco.

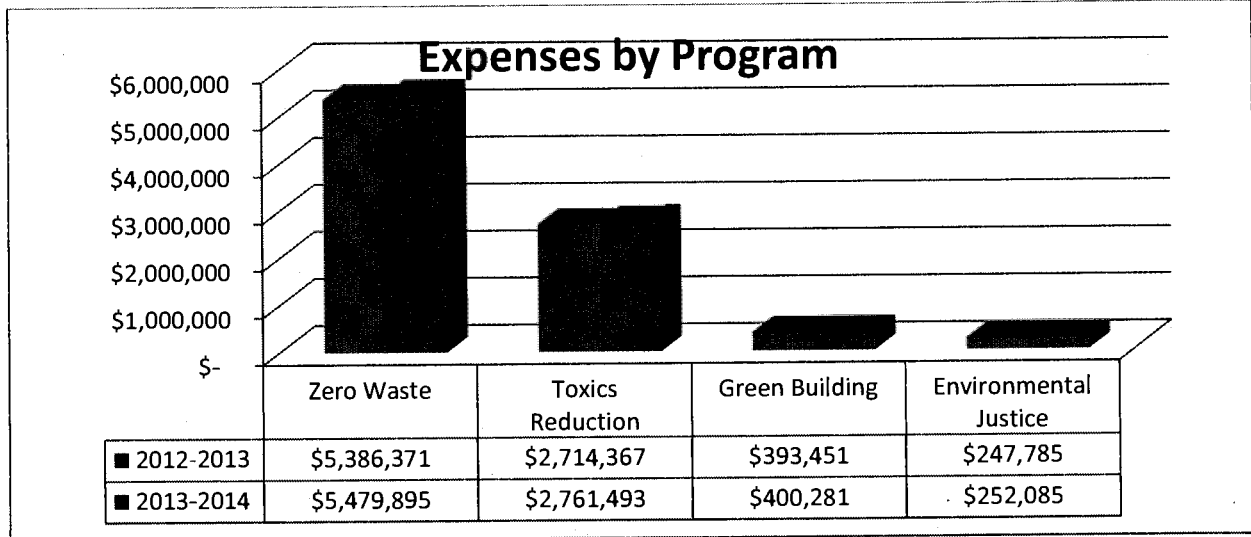
Department of the Environment - Proposed Impound Amount for 2013-2014

The Impound Amount for the Department of the Environment for fiscal 2010-2011 was \$8,226,638, approved through the last rate process in 2006. The Bay Area Consumer Price Index (<http://www.abag.ca.gov/planning/research/cpi.html>) increased 2.4% between June of 2010 and June of 2011, 2.6% between June of 2011 and June of 2012, and is running at 2.9% for calendar 2012. Using these COLA figures, the requested amount for fiscal 2013-2014 is \$8,893,753.

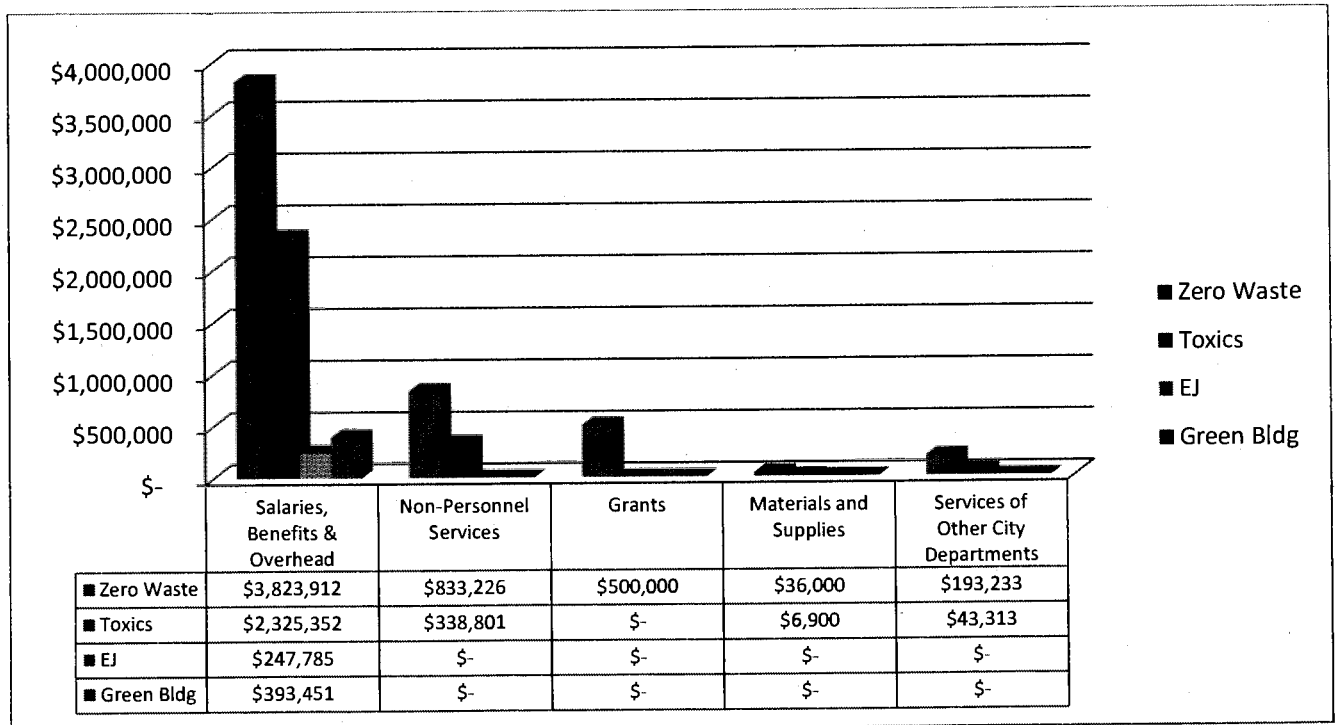


2012-2013 Expenses vs. 2013-2014 Expenses

Departmental Impound expenditures for fiscal 2012-2013 are budgeted and projected at \$8,741,974. 62% of this is used for Zero Waste, 31% for Toxics Reduction, 5% for Green Building and 3% for Environmental Justice. These allocations were fixed based on legal and other considerations during the last refuse rate process; current percentage allocations mirror what was approved during that process. The proposed budget for fiscal 2013-2014 is based on those same allocations. The table below shows current fiscal year spending, and proposed fiscal year spending for fiscal 2013-2014 by program area. The proposed amount for fiscal 2013-2014 is approximately 2% higher than the projected actual spending for fiscal 2012-2013.



The next chart shows current expenses by program area and by category. Salaries, benefits and overhead for existing staff account for almost 78% of all expenses. Impound account funding for Green Building and Environmental Justice programs just support salaries, benefits and overhead and are not used for any other purposes.



The next table breaks out total expenses by category, and compares current year to the proposed 2013-2014 fiscal year. The only increase factored in is an anticipated increase in the cost of benefits for next fiscal year.

Expenses by Category	2012-2013	2013-2014
Salaries, Benefits and Overhead	\$ 6,790,501	\$ 6,942,280
Non-Personnel Services	\$ 1,172,027	\$ 1,172,027
Grants	\$ 500,000	\$ 500,000
Services of Other City Departments	\$ 236,546	\$ 236,546
Materials and Supplies	\$ 42,900	\$ 42,900
Total	\$ 8,741,974	\$ 8,893,753

Impact on Rates

The proposed amount for the Department of the Environment for fiscal 2013-2014 is \$667,115 higher than what was approved in the 2006 rate process. This will likely translate to about one quarter of one percent of the proposed rate - which would be less than 7 cents on the current \$27.55 charge for monthly refuse collection for a typical single family home.

The cost of conducting the current rate process is included in the budget in fiscal 2012-2013. Half of the \$550,000 cost of the rate process was encumbered in fiscal 2011-2012 and carried forward into 2012-2013 and the other half was included in the budget for fiscal 2012-2013. For fiscal year 2013-2014, the Department is assuming that there will not be another rate process. \$275,000 in professional services funds - budgeted for the refuse rate process in 2012-2013 - are budgeted for a comprehensive disposal and diversion analysis for fiscal 2013-2014. This study, which should ideally be conducted once every five years, hasn't been conducted since 2006. It is an essential planning element for getting San Francisco to zero waste by 2020, and will set the foundation for all our major zero waste programs going forward. In subsequent fiscal years these funds will be available for future refuse rate processes.





Edwin M. Lee, Mayor
Mohammed Nuru, Director



Douglas Legg, Manager

MEMORANDUM

April 11, 2013

TO: Mohammed Nuru, Director

FROM: Douglas Legg
 Manager, Finance, Budget & Performance

SUBJECT: DPW Funding Included in Recology 2013 Refuse Rate Application

The 2013 refuse rate application from Recology includes \$3.88 million in the Impound Account in continuing funding for refuse-related services of the Department of Public Works (DPW), \$967,000 in new funding for Education, Compliance and Outreach, and \$840,000 for public litter can replacement. The application also includes \$33,000/year for DPW staff costs for the next rate review process. This process is expected to occur in FY 2015-16, so there will be \$99,000 available in that rate year. Recology does not earn profit on items funded from the Impound Account. This memorandum describes the basis for these items.

Refuse Services

In FY 2011-12, DPW spent \$20,742,182 on activities to collect and dispose of refuse and recyclables on San Francisco city streets and properties:

Activity	FY 2011-12 Expenditures	FTEs
Mechanical Street Sweeping	\$670,730	3.3
Litter Patrol & Block Sweeping	\$17,862,293	120.2
Abandoned Materials Collection	\$2,209,159	15.5
Total	\$20,742,182	139.0

The mechanical street sweeping cost represents only the incremental cost for drivers to deliver loads directly to the transfer station at Tunnel Road, rather than to the DPW yard; it does not include the cost of mechanically sweeping San Francisco's streets. At the transfer station, loads are subject to additional processing, which allows a portion of the materials to be diverted from the landfill, helping the City meet its zero waste goals. Previously, loads delivered to the DPW yard went directly to the landfill, with no diversion of recyclable or recoverable materials. Total expenditures in the current fiscal year are higher due to new salary and benefit costs.



Litter patrols and block sweepers responded to over 35,000 service requests for street cleaning in FY 2011-12, and regularly clean 546 blocks of city streets through the Community Corridors program. These services are provided seven days a week, 24-hours a day. The costs include both the costs of picking-up and/or sweeping-up litter and other materials on City streets and sidewalks, but also the incremental cost of delivering loads directly to the transfer station at Tunnel Road, rather than to the DPW yard. Again, this delivery of materials allows for diversion of some refuse from the landfill.

For abandoned materials pickup, DPW is currently scheduled to operate five packer trucks every day of the week (including weekends), each staffed with a driver and laborer, to cover the six zones into which DPW has divided the City. The packer trucks are dispatched to respond to 311 service calls, as well as internally-generated reports of abandoned materials on the city's streets. This level of service would require 17 FTE. In fact, due to budgetary restraints and position vacancies, DPW dedicated only 15.5 FTE to this service in FY 2011-12. DPW's service standard is to respond to all 311 calls within 48 hours, although because of limited budget, the department met this standard on only 79% of the calls received in FY 2011-12. The incremental cost of supervisors, dispatchers and administrative staff is included in the litter patrol budget.

In FY2011-12, DPW received nearly 22,000 calls from the public for items left on the city's sidewalks and streets, and picked up more than 14,000 tons of refuse (includes litter patrol and abandoned materials). This included an estimated 11,000 mattresses, the vast majority of which were collected in packer trucks and eventually disposed of in the landfill. DPW's street sweepers delivered another 7,500 tons of materials to the transfer station.

The proposed funding of \$3.88 million from the Impound Account represents 18.7 percent of DPW's annual expenditures for refuse-related services. DPW also receives funding from a cigarette litter fee (\$2.2 million) to support these services. The remaining funding comes from the city's general fund and a portion of the state subvention of gas tax revenue to the City. Partial funding for these services has been included in the refuse rate base since 2005; the Refuse Rate Board affirmed the eligibility of these costs most recently in the 2012 refuse rate proceedings.

Education, Compliance and Outreach

In the FY 2013-14 budget, DPW proposes expanding efforts related to Education, Compliance and Outreach (ECO) to combat illegal dumping of refuse on city streets and public property. Illegal dumping, inadequate refuse services and littering are very serious problems in San Francisco. They lead to dirty streets and present public health risks. They also require expenditure of public funds to abate and because so many responsible for the dumping do not have adequate refuse service, they reduce the revenue base of the refuse collection companies requiring higher rates paid by rate payers. DPW is requesting two program support analysts and six public information officers to staff this effort. The public information officers would be assigned to each of the Department's six city zones on a full-time basis, with assistance, management and oversight provided by the two program analysts. Staff would be responsible for conducting daily inspections of litter and illegal dumping hot spots, submitting service requests, investigating and issuing notices of violations and citations, engaging in community outreach and



education, and surveying the zone on a routine and comprehensive basis to determine the effectiveness of the education and enforcement efforts. The \$967,000 included in the Impound Account would fully fund these positions.

Through education and enforcement, this program is intended to change public behavior, reducing the number of calls and volume of materials that need to be collected, and increase the number of residents and businesses subscribing to adequate refuse service. With fewer calls, DPW will be able to reduce response time and improve the overall cleanliness of the city's streets.

Public Litter Cans

There are approximately 3,000 public litter cans located throughout the city. These cans are public property, placed and maintained by DPW and emptied at least daily by Recology. In the 2013 rate application, Recology has proposed assuming responsibility for replacing broken doors and damaged or missing liners during the course of their routine services, at no additional cost. Recology has also included funding to DPW in the amount of \$840,000 annually for replacement public litter cans. At an estimated cost of \$1,680 per can, this would allow DPW to replace and install 450 receptacles each year (cost of installation is assumed to be ten percent of the material cost).

A large number of existing public litter cans have reached the end of their useful lives and are no longer functional. In addition to being more aesthetically appropriate for San Francisco than the current concrete receptacles, the new litter cans are designed to be easier to service and maintain. The liners in the new receptacles will be more difficult for scavengers to break into and will mean less spreading of waste by persons seeking to remove bottles and cans from them. Recycling tops on public refuse receptacles provide a simple, cost-effective way to facilitate bottle and can recycling, provide recycling education to the public and reduce scavenging from the receptacles as well as the associated litter and vandalism. Recology collects an estimated 21,000 tons from public litter cans annually; currently no recyclable materials are being recovered once the cans are emptied by Recology personnel. The City is working with Recology to process the contents of these public containers and collect more recyclables in the future.

History of Impound Account Funding

Over the past 8 years, DPW has received funds from the Impound Account as follows:

Fiscal Year	Amount
2005	\$1,400,000
2006	\$707,500
2007	\$1,099,061
2008	\$1,148,321
2009	\$1,195,613
2010	\$1,247,024
2011	\$3,800,646*
2012	\$3,900,646*

* Includes 1.3% surcharge reallocated to DPW beginning in FY2010-11.



Recology to Assume Abandoned Waste Pickup

The 2013 application includes a provision for Recology to assume responsibility for responding to 311 calls for abandoned materials. Under the proposal, Recology would utilize two trucks per route (one packer and one box truck), allowing for greater diversion and more flexible scheduling (DPW currently uses only a packer truck). Recology has set a goal of responding to service calls within four hours on weekdays and within eight hours on weekends. Staff will recommend setting penalties for failure to meet these standards during the upcoming rate process.

Recology has included an additional \$3.3 million in the rate application to cover the labor and equipment for collecting abandoned materials. While higher than the direct labor costs of DPW, the proposal provides for greater diversion of materials, as well as improved response time. In turn, DPW intends to eliminate eight FTE in the illegal dumping program for a savings of approximately \$930,768 per year. Under DPW's proposed FY 2013-14 budget submitted to the Mayor, the remaining FTEs will be redeployed to enhance litter patrol, steam cleaning, graffiti removal, and other services of the department.



Hearing Officer's Report 2012 Refuse Rate Application

On March 29, 2012, the Department of Public Works (DPW) filed an Application with the Chair of the Refuse Collection and Disposal Rate Board (Rate Board) requesting the continued reallocation of certain funds derived from a surcharge on residential refuse collection and disposal rates from a Special Reserve Fund that is held under the Facilitation Agreement between the City and Recology San Francisco ("Recology") to the portion of the Impound Account that is dedicated to DPW for recycling and waste management. Because DPW itself had filed the Application, the Chair of the Rate Board, City Administrator Naomi Kelly, appointed me as an independent hearing officer to conduct the hearing and prepare the report and recommendations otherwise required of the Director of Public Works under the 1932 Refuse Collection and Disposal Initiative Ordinance, as amended ("1932 Ordinance"). Pursuant to that appointment, I am submitting this report and recommended order directly to the Chair of the Rate Board.

This report summarizes the Application, the public process responding to the Application, and the results and recommendations of my review.

I. Summary of the Application

The 2012 Refuse Rate Application consists of the Application itself and the supporting Attachment prepared by DPW staff. It is referenced as Exhibit 1 from the public hearing. In the application, DPW proposes that the existing 1.3% surcharge on volumetric billings continue to be reallocated to the Impound Account to pay for a portion of DPW's street litter program and removal of recycling and refuse from City streets. The Rate Board originally approved the reallocation in 2010, for the time period July 1, 2010, through September 30, 2011. The 1.3% surcharge currently generates approximately \$2.6 million annually from both residential and commercial customers. The proposal would not affect the overall monthly rate charged for residential collection service.

II. Procedures

The burden of proof is on DPW to demonstrate, through evidence on the record, that the change they seek would produce residential refuse collection and disposal rates that are "just and reasonable." In 2010, when the Rate Board initially approved the reallocation of the surcharge, the Rate Board urged the DPW Director and the Department of the Environment to engage in a public process to consider: (1) the appropriate size of the Special Reserve, what should happen to any excess in that Reserve, and whether the 1.3% surcharge on billings that funds the Reserve should be reduced; and (2) the extent to which garbage rate funds should pay for litter and other street-related collection and disposal going forward.

At the direction of the Rate Board, DPW conducted a public workshop on March 20, 2012, to solicit input on the issues raised in the Rate Board's hearing. As described in the Application, notices of the workshop were mailed or emailed to all persons who attended the 2010 hearing and requested notification of future meetings on garbage rates, as well as all members of the

public who testified at the 2010 Rate Board hearing. The workshop notice was also posted on DPW's website and at the Government Information Center at the San Francisco Public Library. DPW and the Department of the Environment presented information on the Special Reserve and on the removal of refuse from City streets and properties. A summary of the workshop, and copies of the materials that were distributed, were made available at the hearing.

Pursuant to the 1932 Ordinance and in response to the filing of the Application, I held a public hearing on April 23, 2012. The hearing was advertised in the San Francisco Chronicle and notice was posted on the DPW website. Notices were also sent by mail to the more than 200,000 residential refuse collection and disposal ratepayers and property owners. The hearing was transcribed.

At the hearing, City staff and the public were given the opportunity to ask questions, cross-examine witnesses, and present testimony in oral public comment and through written submissions.

The hearing record consists of the documents filed by the Applicant, City staff and the public in support of their positions in marked exhibits, the hearing transcripts, and written comments from the public. Exhibits are referred in this Report by the number assigned in the public hearing. Attachment A to this Report contains the list of exhibits that were introduced at the public hearing, all of which are available on the DPW website. Attachment B to this Report includes the transcript of the April 23, 2012, hearing, as submitted by the court reporter.

III. Summary of Recommendation

I have prepared this report based on the 2012 Rate Application and the evidence submitted and testimony given at the public hearing.

I recommend that the revenue generated by the 1.3% surcharge on volumetric billings that would otherwise be retained in the Special Reserve continue to be reallocated to the Impound Account to pay for a portion of DPW's expenditures to prevent and clean up solid waste generated in the City and reduce the amount going to the landfill. This recommendation is based on the following conclusions:

- There is no evidence that there is a need for additional funds to be deposited into the Special Reserve;
- DPW has demonstrated the need for the services proposed to be funded by redirecting the surcharge to the Impound Account;
- DPW has demonstrated that provision of those services will benefit ratepayers and the level of benefit is consistent with residential ratepayers share of the cost;
- DPW has substantively responded to the direction of the Rate Board at its last hearing on this issue, and addressed the issues that caused the Rate Board to impose a time limit on the redirection of the surcharge from the Special Reserve to the Impound Account.

Once final, this order would become effective retroactive to October 1, 2011.

IV. Review of Issues, Analyses and Recommendation

The following sections discuss the issues that staff and I examined in these proceedings, my analysis and my conclusions.

A. The Special Reserve

The City and what is now Recology San Francisco have been parties to a long-term contract to dispose of solid waste at the Altamont landfill since 1987 and have also entered into a Facilitation Agreement to implement provisions of the landfill contract. The Facilitation Agreement includes a requirement for a Special Reserve fund which may only be used to pay for "justifiable extraordinary increases in costs" associated with the landfill contract, and, subject to certain limitations, for the costs of control and disposal of hazardous wastes, where either set of costs is not fully covered by the refuse collection and disposal rates collected from the ratepayers.

Prior to the 2010 Rate Board directive, the Special Reserve was funded by a 1.3% surcharge on Recology's volumetric billings to residents and commercial customers. The Facilitation Agreement requires the parties to maintain a minimum balance of \$15 million in the Special Reserve during the term of the Agreement. According to testimony given by the Department of the Environment, as of September 30, 2011, the Special Reserve has a balance of more than \$29 million. Since the fund's inception, approximately \$5.7 million has been withdrawn from the Special Reserve. These withdrawals were for specific purposes related to managing the landfill and were allowable under the Facilitation Agreement. These withdrawals are referenced in the Application and were further detailed in oral testimony at the April 23 hearing. The Department of the Environment had previously contacted ten of the largest cities and counties in the state and found that none maintain such a large reserve.

I agree with staff's conclusion that the City is more than adequately protected from unforeseen landfill expenses by the Special Reserve. By several measures, the City's risk in this area is low. The Special Reserve is overfunded in and of itself—holding \$29 million against a requirement for only \$15 million. The historic usage of the Special Reserve supports the finding that the balance will not be significantly reduced in the upcoming years. During the 25-year period of its existence, only \$5.7 million in withdrawals and expenditures have been made. Since the fund was established in 1987, it has averaged withdrawals of \$228,000 per year. At that pace, and with the current balance, the fund would have a balance sufficient for over 100 years of withdrawals, even if no deposits are made in the future. The Department of the Environment testified that it is not aware of any pending significant requests for withdrawals from the fund in the foreseeable future.

Comments from the public questioned how the Special Reserve and the balance of any funds remaining will be treated at the conclusion of the Altamont landfill agreement. This is a reasonable question and is consistent with the issue identified by the Rate Board at its 2010 hearing. Department of the Environment staff testified, and the Facilitation Agreement specifies, that the Special Reserve will stay in place for no more than five years, at which time the Rate Board will determine the need for the funds for any purposes associated with the landfill.

Otherwise, the balance of the funds can be used for the benefit of the ratepayers and commercial accounts of the collection companies.

The question regarding the use of the existing balance of the fund is reasonable. However, rejecting the rate application, or placing further time limitations on redirection of the surcharge from the Special Reserve to the Impound Account, would have little apparent benefit rate payers compared to DPW's proposed reallocation. The only result of such an action would be to add to the accumulation of unneeded funds in the Special Reserve. Meanwhile, uses of those funds with significant benefits to ratepayers, as demonstrated by DPW during this rate process, would be discontinued. As discussed above, in response to the Rate Board's direction, DPW and Department of Environment have concluded that the balance in the reserve should be used to the benefit of the rate payers. With approval of DPW's proposed changes, the balance currently in the fund will still remain available for this purpose.

B. DPW's Expenditures and Residential Ratepayers Share

DPW's Application proposes that \$2,600,000 that would otherwise be retained in the Special Reserve would instead pay for a portion of the nearly \$9.0 million that the Department spends to clean up solid waste generated in the City and reduce the amount going to the landfill. Aggregate costs for DPW's programs are provided in the Application including detailed rates for personnel, hours estimated for activities and materials used. These costs are summarized as follows:

1) Hauling Refuse for Separation	\$2,167,006
2) Inspection, Education and Enforcement	827,746
3) Illegal Dumping Cleanup Including Separation of Universal Waste	5,429,540
4) Anti Litter Campaign & Outreach	<u>535,455</u>
Total Costs	\$8,959,747

DPW's testimony at the hearing presented more details of these programs. Specifically, the Department testified that item #1 above is directly related to an environmental mandate to reduce the use of a refuse pit at the DPW yard located at 2323 Cesar Chavez Street. To do this, DPW crews truck materials to Recology's Tunnel Road transfer station and sort recyclable, compostable and landfill materials, adding approximately 600 weekly person trips to the Department's annual workload since 2003. Item # 3 above is related to DPW's collection, sorting and trucking of illegally dumped materials collected by the City's litter patrols, street sweeping teams and in response to 311 calls. Items #2 and #4 represent programmatic and administrative work in these areas—enforcement, inspection and public education regarding waste separation, recycling, litter and dumping. DPW noted that these activities are integral to the overall system for collection and disposal in the City, and are needed to maintain the level of cleanliness that is expected by the public, including residents, visitors, employees, and businesspeople. These activities also contribute to the City's diversion efforts.

DPW calculated the share of the \$9.0 million cost allocable to residential ratepayers using the methodology described on page 3 of the Application, finding that 46.7% of total City refuse is

collected from residential customers and the same proportion of the cost of these programs, or \$4.2 million, could be assigned to the residential customers. The Application proposes to transfer \$3.9 million in total (\$2.6 million from the 1.3% surcharge, plus the \$1.3 million previously approved for DPW refuse-related activities in the 2006 Order), making the amount effectively allocated to residential ratepayers through the application approximately \$1.8 million, or less than half of the annual costs attributable to residential ratepayers.

DPW provided evidence, based on the more than 45,000 requests for street-and-sidewalk cleaning and illegal dumping pickup requests received in Fiscal Year 2012 to date, of the location of those requests. An analysis of 311 data indicates that 50% of the requests occur in residential zones of the City (as defined by the Planning Department); another 29% come from areas zoned mixed use (which typically includes residential units over commercial space). DPW's complete analysis of 311 calls is included in Exhibit 5 from the public hearing.

DPW also provided evidence in the form of a report prepared by HDR Engineering, Inc., experts in solid waste management (Exhibit 4). The report details the origin and composition of the San Francisco waste stream, and the amount of diversion achieved through the efforts of the City, Recology, and other recyclers. The HDR report also presented survey information of the activities and services typically included in municipal refuse collection and disposal rates. The report noted specific examples of cities that include street cleaning, illegal dumping abatement, litter control, and collection and disposal of abandoned wastes in the rate base.

Under cross-examination by a member of the public, DPW was asked how litter control was paid for prior to 2010; the number of tons collected by DPW in the last reporting period (presumably calendar year 2011), the proportion of those wastes that could be characterized by "bin" type (i.e., blue, green, or black), and whether there would be any attempt to measure those amounts going forward. DPW referred to the information contained in the workshop presentations (Exhibit 3) and the HDR report (Exhibit 4). DPW staff also noted that the Impound Account has been used to fund litter control costs since 2004.

Also under cross-examination, DPW was asked whether it had produced a "nexus" study relating the cost of litter control and pickup of abandoned wastes to the benefits derived by ratepayers. DPW referred to the information derived from 311 data (Exhibit 5), which illustrates the distribution of service requests by zoning type, as a demonstration of the connection between payments and benefits for these services.

With respect to the Facilitation Agreement (Exhibit 8), a member of the public questioned why funds in the Special Reserve should be redirected now, rather than at the end of the landfill contract. Staff from the Department of the Environment reiterated their testimony that the balance already well-exceeds the required minimum balance and is likely sufficient to meet unforeseen expenses.

I find the argument compelling that there is evidence that funds could be redirected to services benefitting ratepayers, instead of continuing to accumulate in a fund with no anticipated uses other than an unspecified reallocation during a future rate process.

I concur with the Department's contention that the programs detailed in the Application are needed to maintain the level of cleanliness that is expected by San Francisco's residents, visitors, employees and businesspeople. Public education and enforcement efforts are important parts of the overall effort to reduce and properly dispose of waste. DPW's pickups, street sweeping programs and cleanup of illegally dumped materials are needed for cleanliness in San Francisco. The Department's procedures for separating waste from these sources, and reducing the use of the pit at the yard contribute to reducing the volume and toxicity of materials going to the landfill. There is no proposed alternative method to meet these specific needs. Further, I agree that the services detailed in the Application are directly linked to the City's ability to meet its zero waste goals.

DPW's request is for \$2.6 million in funding from the 1.3% surcharge (in addition to the \$1.3 million previously allocated to DPW); however the Application details nearly \$9.0 million in costs. I find that the Application clearly demonstrates DPW's expenditure of funds in excess of the requested amount for programs related to street litter abatement and removal of recycling and refuse from City streets. This conclusion is supported by extensive data submitted by DPW showing that even under the most conservative assumptions, the allocation to residential ratepayers is justified. I further find that the method used to allocate these program costs to residential rate payers at the 46.7% proportion is just and reasonable.

In the Application and supporting evidence, I find that DPW has also demonstrated that the Department's activities relating to collection and disposal of litter and abandoned wastes, including education and enforcement, are an integral component of the City's solid waste collection and disposal system, and that the cost of these activities are a reasonable and justifiable component of the rate base.

Moreover, DPW and the Department of the Environment have demonstrated that the proposed allocation and use of these funds is both consistent with past practice by the City and well within the norm for jurisdictions within California and nationwide. DPW and the Department of the Environment have provided third-party data showing that other jurisdictions include these activities in their refuse rate bases, irrespective of whether the service is performed by a private company or a public agency.

C. California Environmental Quality Act Finding

The City Planning Department has reviewed the Application and concluded that the actions proposed in the Application are exempt from review under the California Environmental Quality Act (CEQA). A letter explaining their conclusion was submitted as part of the hearing record and is marked as Exhibit 6. In its review, the Planning Department made the following CEQA findings:

"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;

“The purpose of the proposed rate adjustment 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, (d) obtain funds for capital projects necessary to maintain service within existing service areas, or (e) obtain funds necessary to maintain those intracity transfers as are authorized by City charter; and,

“Specifically, the proposed rate reallocation would enable DPW to “[meet] operating expenses, including employee wage rates and fringe benefits,” and “[purchase] or [lease] supplies, equipment, or materials,” for DPW programs to collect and dispose of solid waste and recyclables on City streets and properties, as well as programs to prevent littering and illegal dumping, as set forth in the Rate Application and Attachment 1.”

D. Protests

The City is required under Proposition 218 to offer the ratepayers the opportunity to protest the Application and proposed rate order. If more than 50% of the ratepayer base, in this case residential refuse ratepayers, submit a written protest by the close of the hearing, the City must not proceed with the rate proposal. Written protests were tabulated as part of the April 23 hearing process. DPW noted the procedures for filing a protest in the official notice sent to more than 200,000 ratepayer and homeowners (Exhibit 7), and posted the procedures on its website. Eight letters of protest were received. These protests are less than 1% of the approximately 140,000 residential ratepayer accounts, therefore I conclude that the Prop. 218 test is met and the Application may go forward.

E. Public Comment

In addition to the Proposition 218 protest opportunity, as noted under Procedures, the public was invited to ask questions, cross-examine, give testimony, and comment at the April 23 hearing. An estimated 26 individuals attended the hearing; one took the opportunity to cross-examine staff and give testimony, and also spoke during the public comment period. The individual’s remarks and questions, and staff responses, are available in the hearing transcript in addition to the issues discussed in this Report. Mr. David Pilpel also submitted a written letter of protest, which is referenced as Exhibit 9. I have reviewed Mr. Pilpel’s written protest, and taken under consideration the issues he raises while evaluating the application and writing this report. While Mr. Pilpel’s comments have helped to enrich the discussion, I have found no basis in the protest for denying DPW’s Application, for the reasons stated in this report.

Recommended

Greg Wagner

Chief Financial Officer, Department of Public Health

Hearing Officer

May 8, 2012

Attachment A
List of Exhibits Submitted at the Public Hearing
on the 2012 Refuse Rate Application
April 23, 2012

Exhibit #	Description
1	Rate Year 2012 Refuse Rate Application, dated March 29, 2012
2	Hearing officer's Report on the 2010 Refuse Rate Application
3	2012 Workshop Notice, Agenda and Summary (including handouts)
4	HDR Report, "Municipal Refuse Collection Rates Comparative Analysis," dated April 20, 2012
5	DPW 311 call data figures
6	City Attorney letter dated April 5, 2012, Environmental Review, Modification to Garbage Rates," and Planning Department Approval dated April 17, 2012
7	2012 hearing notification postcard and proof of publication
8	1987 Facilitation Agreement, dated January 2, 1987
9	Letter from David Pilpel dated April 23, 2012, "Written Protest Against Proposed Change in Refuse Collection and Disposal Rates"

Attachment B
Transcript of the Public Hearing
on the 2012 Refuse Rate Application
April 23, 2012



San Francisco Department of Public Works
Municipal Refuse Collection Rates
Comparative Analysis

April 20, 2012

Prepared for:

City and County of San Francisco
Department of Public Works
City Hall, Room 348
One Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Prepared by:

HDR Engineering, Inc.
560 Mission Street, Suite 900
San Francisco, CA 94015



Introduction

The San Francisco Department of Public Works (DPW) is responsible for managing programs addressing illegally dumped materials and litter in the City and County of San Francisco (City).

In 2010, the City's Refuse Collection and Disposal Rate Board approved allocating an existing surcharge on refuse rates to the City's Impound Account to pay for removal of refuse from City streets and properties, as well as for programs to prevent littering and illegal dumping. This change in fund allocation had no impact on residential refuse collection rates.

DPW is proposing to continue to allocate the 1.3 percent surcharge on San Francisco refuse rates to the Impound Account to support DPW's litter reduction and illegal dumping pickup programs.

DPW lists the following items as refuse/litter related services to be included in the rate base:

- The incremental cost of hauling wastes from the DPW yard (where it was previously dumped directly into a long-haul truck and taken to landfill) to transfer station and segregating materials (increases diversion)
- Inspection, enforcement and education
- Pickup of abandoned wastes including separation of materials
- Anti-litter campaigns

This memorandum describes background and context for these programs including the regulatory framework and historical solid waste practices in the City. It also describes the generation and composition of discarded materials in the City and presents the result of a survey of communities with similar programs included in the rate base.

Regulatory Framework for Solid Waste Management

Since the 1960s, federal, state, and city governments have developed a regulatory framework to ensure that solid and hazardous wastes are managed in an environmentally sound manner. Multiple agencies at each governmental level have responsibility for regulating each component of the solid waste management system including collection, processing, and final disposal. Regulation is generally used to set basic standards for waste transportation, handling, and disposal to ensure consistency and to protect public health and the environment. Education and voluntary programs are used to increase recycling, waste reduction, and composting rates; and to promote producer responsibility. Over the last 30 years, regulation of solid waste management has required adherence to increasingly stringent environmental standards.

Role of the Federal Government in Regulating Solid Waste

The federal government sets basic requirements to ensure consistency among states and regulations to protect public health and the environment. The United States Environmental Protection Agency (U.S. EPA) is responsible for hazardous and non-hazardous solid waste management through the

Office for Solid Waste and Emergency Response. The Resource Conservation and Recovery Act of 1976 (RCRA) established landfill construction, management, and closure guidelines. This act also regulates hazardous waste management facilities that treat, store or dispose of hazardous waste. The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), known as Superfund, was enacted by Congress to address abandoned hazardous waste sites in the U.S. CERCLA has subsequently been amended, by the Superfund Amendments and Reauthorization Act of 1986 (SARA). The Office of Air and Radiation regulates the solid waste-related air emissions, enforcing the Clean Air Act of 1976 (CAA) and subsequent amendments.

Role of the State Government in Regulating Solid Waste

The California Integrated Waste Management Act of 1989, Assembly Bill 939 (AB 939) was the first recycling legislation in the country to mandate landfill diversion goals. California has successfully used AB 939 to motivate cities and counties to reduce reliance on landfill disposal and increase waste diversion through recycling, composting and source reduction. The California Natural Resources Agency's Department of Resources Recycling and Recovery (CalRecycle)¹ administers the California Beverage Container Recycling and Litter Reduction Act (Bottle Bill) which was enacted in 1986. California has historically been more proactive than any other state and the federal government in establishing the regulatory structure to promote zero waste. California will continue in this direction in the future as it works toward a statewide goal of 75 percent diversion by 2020. Assembly Bill 341 (AB 341) established a statewide goal of 75 percent and requires commercial generators (that generate more than four cubic yard per week of solid waste) and multifamily complexes (with five units or more) to recycle.

The California Environmental Protection Agency (Cal/EPA) and the California Natural Resources Agency both regulate hazardous and non-hazardous solid waste management within the state. Within the California Natural Resources Agency, CalRecycle² manages non-hazardous waste collection, processing, recycling, and disposal. CalRecycle is responsible for monitoring cities and counties to ensure they are implementing adequate source reduction, recycling, composting, and other diversion methods to meet the AB 939 waste diversion mandates. The Department of Toxic Substances Control (DTSC) focuses on preventing exposure of hazardous chemicals to humans and ecosystems and keeping them out of the waste stream.

The California Air Resources Board (CARB) is responsible for maintaining healthy air quality, including developing the regulations to enforce the Global Warming Solutions Act, Assembly Bill 32 (AB 32), enacted in 2006. With the passage of AB 32, California became a national leader in legislation to reduce greenhouse gas emissions. This act makes a commitment to reduce the state's

¹ Prior to July 2009, the Bottle Bill was administered by the Department of Conservation, Division of Recycling.

² Prior to July 2009, non-hazardous waste collection, processing, recycling, and disposal were managed by the California Integrated Waste Management Board (CIWMB).

emissions to 1990 levels by 2020, which is a reduction of approximately 25 percent from the expected emissions in the absence of regulation.³

The local Air Quality Management Districts throughout the state are responsible for ensuring that ambient air quality standards are attained and maintained in their respective air basins. The City is located within the Bay Area Air Quality Management District (BAAQMD), which regulates local air quality. All new construction within the BAAQMD, including solid waste processing and disposal facilities, must undergo a New Source Review in compliance with federal, state and BAAQMD regulations.

The City's Role in Regulating Solid Waste

Under the 1932 Refuse Collection and Disposal Initiative Ordinance the City regulates collectors of discarded materials through 97 exclusive permit areas. Over time, Recology and its predecessor companies have acquired all of the permits and Recology is now the exclusive collector of discarded materials for a fee within the City limits. The City provides oversight, research and outreach while Recology develops infrastructure, provides collection, processing and reporting. Communication and cooperation is crucial. The City affects Recology's activities through the ratemaking process, when the City approves and sets the residential refuse rates. The City also manages Recology's programs in San Francisco through collaboration and problem-solving.

The 1932 Ordinance also requires all San Francisco generators to receive refuse collection service. The City's Mandatory Recycling and Composting Ordinance requires all generators to separate recyclable and compostable materials.

The City is a leader in zero waste and in 2002 established a goal of 75 percent diversion by 2010 and zero waste by 2020. The citywide diversion rate was 78 percent in 2009.

The comprehensive Environment Code, created in 2003, governs the protection of the environment, natural resources and sustainability. The City's environmental ordinances include those addressing:

- Mandatory recycling and composting - requires all generators to separate their recyclable and compostable materials from trash
- Checkout bag reduction – restricts the distribution of single-use checkout bags
- Green building – establishes LEED Gold as the minimum standard for City building projects
- Construction and demolition recycling – requires mixed construction and demolition debris to be delivered to a registered facility with a recovery rate of at least 65 percent
- Food service waste reduction – prohibits the use of polystyrene foam food service ware at food service establishments and City facilities

³ Text of AB 32: <http://www.arb.ca.gov/cc/docs/ab32text.pdf> (accessed April 12, 2012)

- Precautionary purchasing – strengthens the City’s environmentally preferable purchasing program and establishes an Approved Alternatives List for City purchases of targeted products
- Green business program – recognizes businesses that demonstrate environmental leadership, exceed minimum regulatory requirements, and take voluntary steps to conserve natural resources and prevent pollution

Refuse Collection and Disposal Practices

Changes in refuse collection and solid waste disposal practices in the City have been made primarily in response to federal and state legislation and City initiatives.

In the early part of the 20th century, the City’s scavengers separated reusable and recyclable materials from household trash. When the bayfill landfills were closing in the 1980s, the City considered building a waste-to-energy facility in Brisbane. When this proposal was defeated, the City obtained a long-term disposal contract for trash and initiated the blue box curbside recycling program.



The City has a responsibility to reduce the toxicity of the solid waste that is ultimately disposed in landfills. Municipalities can be held liable under CERCLA for the solid waste which they generate and send to landfills. In response, the City has established a number of programs to divert hazardous materials from landfills, including: the household hazardous waste facility for residents and small quantity commercial generators; door-to-door pickup of household hazardous waste from residents, takeback programs through retailers for paint, oil, batteries and fluorescent lights; and load-check programs at the transfer station. Recology has also modified waste handling procedures to remove hazardous materials from loads destined for landfill.

AB 939 required the City to plan and implement programs to reach 25 percent diversion by 1995 and 50 percent diversion by 2000. The City developed its innovative three-cart collection program for commingled recycling (blue cart), source-separated composting (green cart) and landfilled trash (black cart) to increase diversion rates. The City’s diversion rate increased from 36 percent in 1995 to 46 percent in 2000.

The City reached 64 percent in 2002 and went on to establish a goal of 75 percent by 2010 and zero waste by 2020. These significantly higher diversion goals motivated the City to expand its recycling and organics collection programs to all generators. Recognizing the limitations of the voluntary programs, the City’s mandatory construction and demolition debris recovery ordinance and mandatory recycling and composting ordinance expanded the City’s diversion programs to all

generators. The City reached 78 percent diversion in 2009 and is now focused on reducing waste delivered to landfills to zero waste by 2020.

As the City focuses on zero waste, all discarded materials streams are being addressed to maximize diversion, including:

- Materials left behind on City buses – Muni has developed a program for diverting recyclable materials, including cans, bottles and newspapers
- Illegally dumped materials – Illegally dumped materials collected by DPW are sorted at the transfer station instead of being transported directly to the landfill
- Street sweepings – The City has analyzed the composition of street sweepings in different neighborhoods to divert uncontaminated organic materials to composting

Waste Stream Characterization

San Francisco generates approximately 2 million tons of solid waste a year. The City studies the composition and quantity of discarded materials in order to plan and implement policies and programs targeting specific generators and materials streams.

Figure 1 presents the City’s diversion and disposal by generator type for 2006, from the most recent generation study data. These figures include tons collected by Recology and other recyclers, and those materials hauled by residents and businesses within the City.

Figure 1 San Francisco Waste Diversion and Disposal by Generator Type

	Diverted Tons	Disposed Tons	Diversion Rate
Residential	226,701	222,642	50%
Commercial	944,189	382,197	71%
City Government	244,268	58,565	81%
Citywide¹	1,415,158	663,404	70%

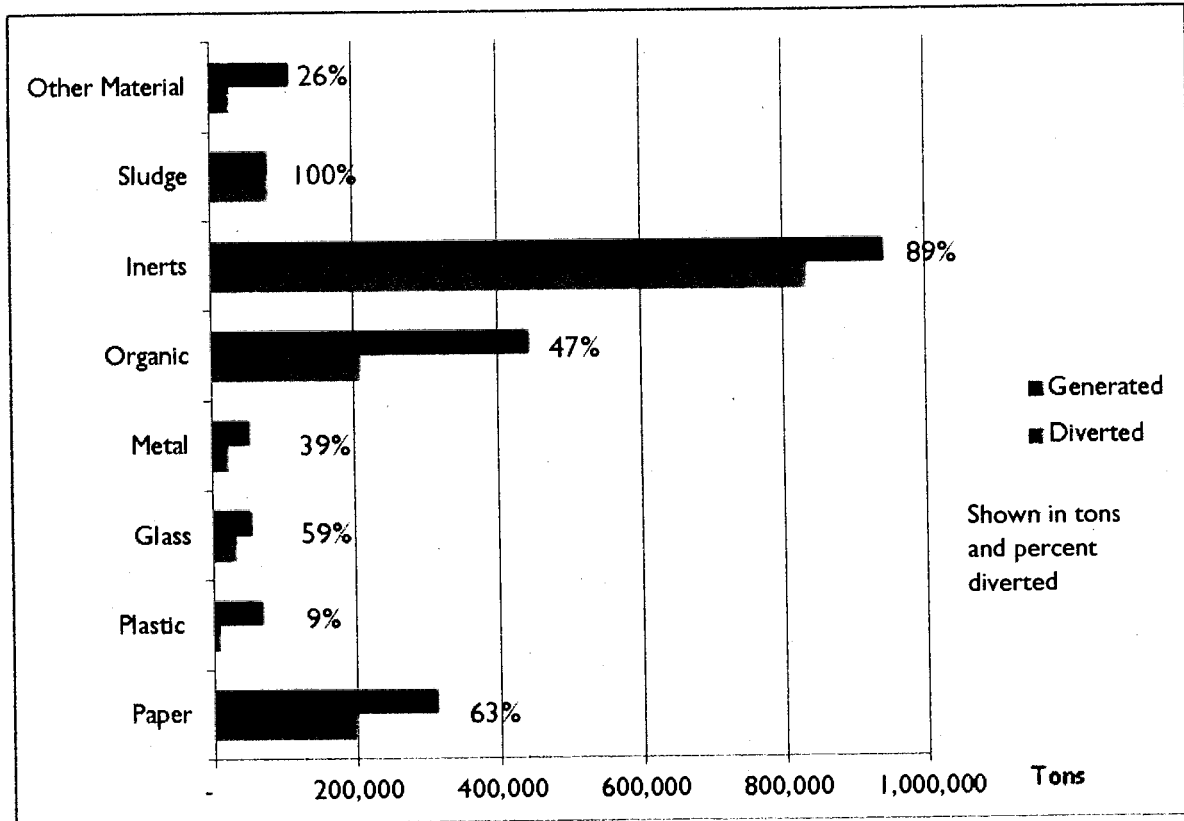
Source: 2006 Generation Study Table

¹Includes adjustments for biomass diversion

Commercial and City government generators have achieved very high diversion rates. This is due, in part, to the aggressive diversion programs for construction and demolition debris (including inert materials) and sludge residues from the wastewater treatment plant.

Figure 2 presents the breakdown of the waste stream and capture rates by material type. Capture rates illustrate the percentage diversion. For example, out of the total amount of paper generated in the City in 2006, 63 percent was diverted from disposal.

Figure 2 San Francisco Capture Rates by Material Type (2006)

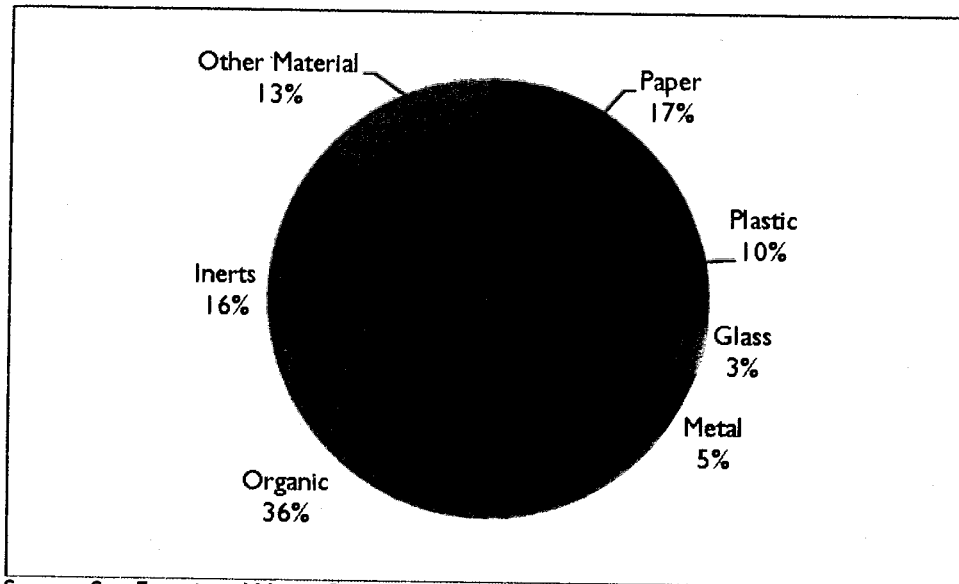


Source: San Francisco 2006 Generation Study Table

Note: "Inerts" include construction and demolition debris, such as asphalt, concrete and soil.

Figure 3 presents the breakdown of the portion of the waste stream that was going to landfill in 2006. Compostable organic materials (including food scraps, yard trimmings and wood) are the largest components of the disposed materials, totaling 36 percent. Recyclable materials (including paper, plastic, glass and metal) are also large components, totaling 35 percent. The City hopes to achieve higher diversion rates with more aggressive programs and separation prior to hauling to the landfill.

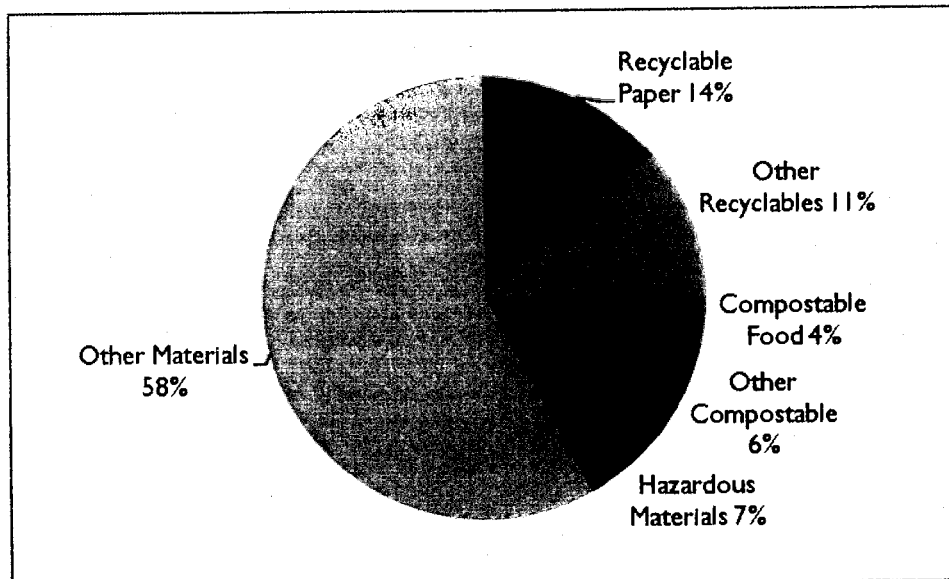
Figure 3 San Francisco Composition of Landfilled Materials



Source: San Francisco Waste Characterization Study, March 2006

The City also estimated the amount of hazardous materials disposed in landfills. Three percent of the "Other Material" disposed in landfills consisted of hazardous materials, such as paint, pesticides, batteries, gasoline, motor oil, oil filters, asbestos, and medical waste. The vast majority of this material was treated wood and electronics. The City and Recology have since taken additional efforts to address these items. The City takes special care to reduce the amount of hazardous materials disposed in landfills. Recology conducts a load checking program at the transfer station and monitors materials brought into the transfer station by the public and by Recology.

Abandoned waste and illegally dumped materials are collected by DPW and brought to the transfer station where recyclable and compostable materials are diverted from disposal, to the extent possible, and hazardous materials are removed. Figure 4 shows the percentage of recyclable, compostable and hazardous materials in the DPW loads. The materials collected by DPW in packer trucks and through its litter patrol represent less than two percent of the total waste generated in San Francisco.

Figure 4 Composition Self-Hauled Materials from the Department of Public Works

Source: San Francisco Waste Characterization Study, March 2006

Rate Survey

Communities throughout California and across the country take different approaches to how they allocate the costs of municipal programs. Cities typically identify a variety of funding sources for traditional municipal functions, including those required to comply with state and federal regulations. The most common approach to pay for solid waste management costs is through customer collection rates. Charges related to solid waste management are sometimes included in property tax assessments or utility bills.

Services provided by communities and their contractors and paid through collection rates can include:

- Removal of materials placed for collection on premises
- Household hazardous collection on premises or at drop off facilities
- Street sweeping
- Illegal dumping abatement
- Removal of materials placed in city litter cans
- Drop-off facilities for recyclable and reusable materials
- Material processing and marketing
- Residual waste disposal at landfills
- Maintenance and monitoring of closed landfills

- Street repair associated with collection vehicle impacts
- Outreach, education and marketing
- Collection services provided to city facilities
- Collection services provided to schools
- Collection services at special events

Stockton

The City of Stockton, California contracts for collection services through Allied Waste and Waste Management. The city has established exclusive residential collection areas for each service provider and commercial customers throughout the city may receive services from either company. Prior to 2003, the city had provided street sweeping services and seasonal leaf collection as a municipal function. When the city renegotiated the collection contracts in 2003, the city assigned the task of street sweeping to Waste Management and Allied Waste. Allied Waste and Waste Management contract for services with a third-party street sweeping company and pay for these services through the residential and commercial collection rates.

Additional services included in the collection rates include:

- Weekly curbside trash collection
- Single stream recycling
- Used motor oil and oil filters collection
- Green waste and food waste collection
- Seasonal leaf collection
- Street sweeping
- On-call bulky item pickup
- Christmas tree collection
- Recycling and trash collection at special events
- Recycling and trash collection at city facilities, including disposal of abandoned waste picked up by city crews
- Recycling and trash collection at neighborhood cleanup events
- Trash collection from community cleanup events
- Trash collection from city litter cans
- Community workshops
- School outreach programs

- Festival attendance

San Jose

The City of San Jose, California contracts for residential trash collection services through Garden City Sanitation and GreenTeam, residential recycling through California Waste Solutions and GreenTeam, and residential and trimmings and street sweeping through GreenWaste Recovery. The city is transitioning its commercial collection services to a citywide contract with Allied Waste. GreenWaste Recovery provides weekly collection of yard trimmings in carts and from piles left by residents in the street. GreenWaste provides residential street sweeping on a monthly basis on the same day as trash collection. The costs for the street sweeping services (approximately \$2 million annually) are currently paid out of the Integrated Waste Management Fund, which is supported by customer rates and other sources, and the Storm/Sewer Operating Fund. In fiscal year 2012-13, the city is proposing to shift all of the costs into the Storm/Sewer Fund. The source of funds are fees paid by residents and businesses to the city for services and facilities furnished by the city in connection with its storm drainage system to or for each premise which benefits directly or indirectly.

Additional services provided in San Jose that are reflected in the collection rate base include:

- Trash collection, recycling services
- Public outreach, and administration
- Management of the citywide disposal contract
- Customer billing and customer service
- Household hazardous waste services
- Environmental planning and policy development
- Residential street sweeping
- Environmental facility management
- Closed landfill compliance

Austin

The City of Austin, Texas provides municipal collection services to residential customers in the city. The Austin Resource Recovery Department receives funding from two sources: residential collection fees and citywide anti-litter fees. The residential collection fee is determined on a “pay as you throw” basis. That is, customers with larger trash collection carts pay more than customers with smaller collection carts. The anti-litter fee is assessed as a flat monthly rate for residential and commercial utility customers; the current rate is \$5 per month for all utility customers. Both fees are paid through the municipal utility bill.

The anti-litter fee raises \$22 million annually and pays for:

- Curbside bulk and large brush collection for single-family homes
- Street sweeping
- Dead animal collection
- Household hazardous waste facility
- Litter collection and street sweeping, and flushing in the downtown area
- Enforcement of some city codes

The residential collection fee pays for:

- Weekly trash collection in automated carts
- Weekly yard trimmings collection in bundles and containers provided by customers
- Bi-weekly single-stream recycling collection
- Closed landfill maintenance
- Outreach, education and marketing
- Recycling drop-off center

Sacramento


The City of Sacramento, California Department of Utilities Solid Waste Services provides trash, recycling, and yard trimmings collection and street sweeping to both residential and commercial customers. Solid Waste Services provides weekly residential trash collection service to more than 124,000 households. The material placed in green trash containers goes to a landfill. Recyclable materials placed in blue recycling containers are sorted at a transfer station and shipped to markets that make products with recycled content. During leaf season, the city collects nearly 27,000 tons of yard trimmings. Yard trimmings are collected loose in the street. Residents with this service can place a single pile of yard trimmings, up to two cubic yards, in front of their homes for collection. More than 100,000 residents participate in the Containerized Yard Waste Collection Program. Participants must use a 96-gallon yard trimmings container for weekly collection and may place yard trimmings loose-on-the-street for collection eight scheduled times per year, during peak seasons.

The Solid Waste Services Department provides bi-monthly street sweeping in most areas of the city. Charges for refuse collection services are paid through the city's utility bill and funds are maintained in the Solid Waste Services enterprise fund.

The Solid Waste Fund is financially responsible for the operation, maintenance, and related capital improvements for the city's refuse collection and disposal services, including yard trimmings, recycling, street sweeping, and a variety of related community service programs (intra-city services). Solid Waste funds are also used to finance landfill site post-closure expenses including the Landfill Site Closure capital improvement project, as required by state law. Revenues are generated from user fees.

Services included in the solid waste utility bill include:

- Trash, recycling and yard waste collection
- Street sweeping
- Household hazardous waste facility
- Curbside collection of used oil and oil filters
- Illegal dumping abatement
- Customer service
- Closed landfill maintenance



Department of Public Works


Public Workshop

San Francisco Residential Refuse Rates

Allocation of Refuse Rate Surcharge

Tuesday, March 20, 2012, 9 a.m.
City Hall, Room 416
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

San Francisco Department of Public Works · Making San Francisco a beautiful, vibrant, and sustainable city · www.sfdpw.org



Department of Public Works

Workshop Agenda

1. Introduction of workshop participants and procedures
2. Background on refuse collection rates
3. Review of 2010 Rate Board directive
4. Presentation by the Department of the Environment addressing the Special Reserve Fund
5. Presentation by the Department of Public Works addressing removal of refuse from City streets and properties
6. Public comment and discussion

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Rate Board Directive

Department of Public Works

In approving the reallocation of the surcharge to the Impound Account in 2010, the Rate Board encouraged the DPW Director and the Department of the Environment to engage in a public process to address two issues:

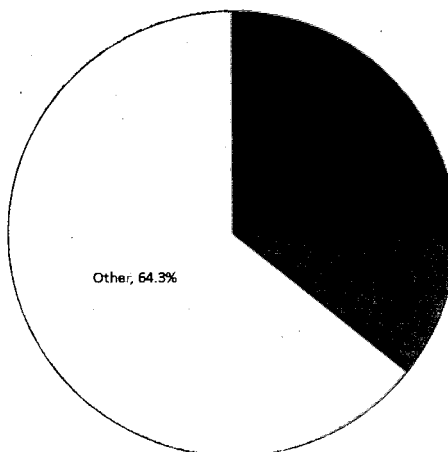
- The appropriate size of the Special Reserve Fund, what should happen to any excess in that Reserve, and whether the 1.3% surcharge should be reduced; and
- The extent to which garbage rate funds should pay for litter and other street-related collection and disposal going forward.



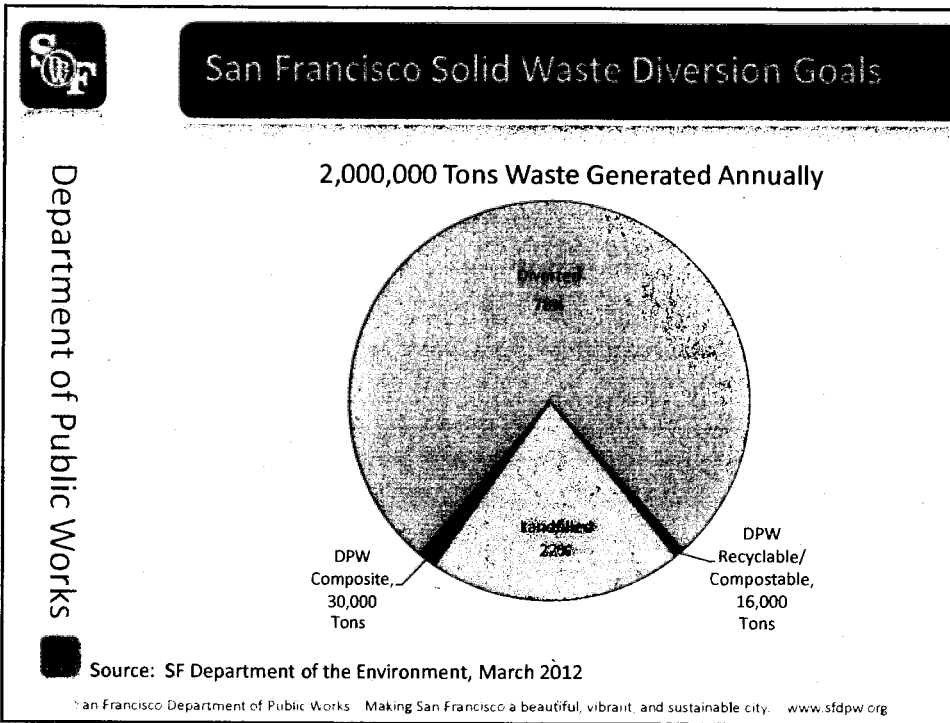
Makeup of DPW-Collected Solid Waste

Department of Public Works

46,047 Total Tons Collected



Source: ESA, March 2006



-
- Cities that Include Street Cleaning and Litter Control in Garbage Rate Base**
- Department of Public Works
- R3 Consulting Group study (May 26, 2011):
- Belmont
 - Burlingame
 - East Palo Alto
 - Foster City
 - Hayward
 - San Carlos
 - San Mateo
- FCS Group study (March 2011):
- Davis
 - Sacramento
 - Stockton
- San Francisco Department of Public Works Making San Francisco a beautiful, vibrant, and sustainable city. www.sfdpw.org



2012 Refuse Rate Hearing April 23, 2012

Figure 1

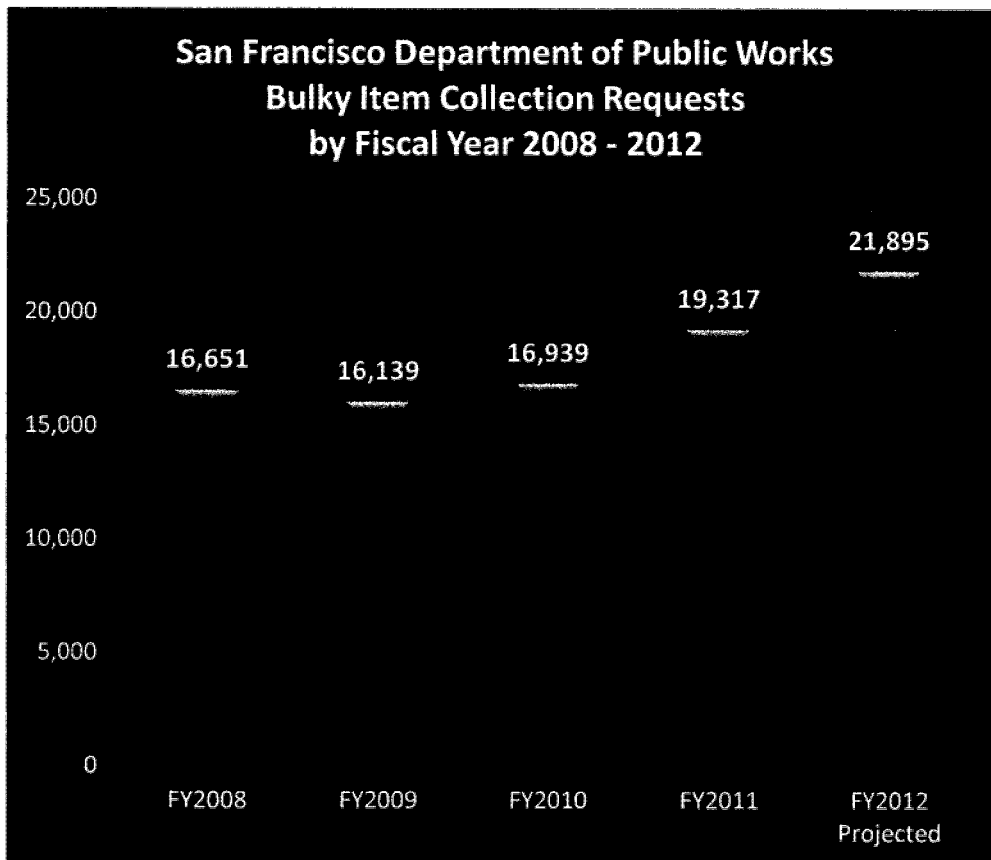


Figure 2

Street/Sidewalk Cleaning & Illegal Dumping Service Requests for Fiscal Years 2009 - 2012

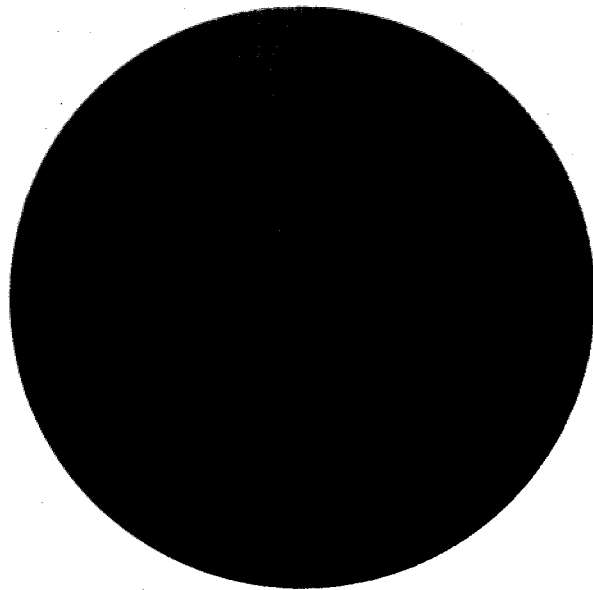
	FY2009	FY2010	FY2011	FY2012*	Grand Total
Street /Sidewalk Cleaning	33,387	31,487	34,437	28,132	127,443
Illegal Dumping	16,139	16,939	19,317	16,947	69,342
Grand Total	49,526	48,426	53,754	45,079	196,785

*FY2012 data is as of 4/10/2012; public and internally generated service requests

Source: DPWBI Cube

Figure 3

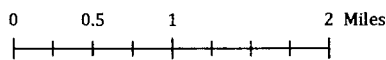
**Percentage of Street/Sidewalk Cleaning
& Illegal Dumping Service Requests by Zone**
(FY12 data as of 4/16/12; Source: DPWBI Cube)



- Residential
- Mixed Use
- Public
- Industrial
- Commercial

Figure 4

Street/Sidewalk Cleaning & Illegal Dumping Service Requests (7/1/11 - 4/16/12)



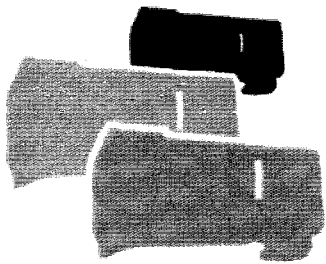
Street Cleaning & Illegal Dumping SRs **General Zoning Categories**

- 1 - 7
- ⊙ 8 - 28
- ⊕ 29 - 139

- Commercial
- Industrial
- Mixed Use
- Public
- Residential
- Hi Density Res



City & County of San Francisco
Department of Public Works



Rate Payer Advocate

Representing the public interest

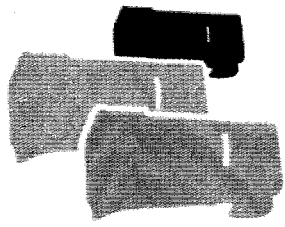
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Phone: (415) 554-6921
Email: ratepayeradvocatesf@hfh-consultants.com
Website: www.ratepayeradvocatesf.org

Rate Payer Advocate Overview

Peter M. Deibler
Director's Hearing on Recology Refuse Rate Application
April 12, 2013



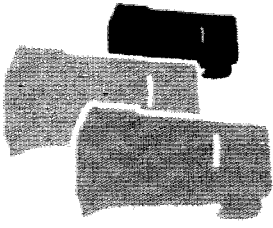


Ratepayer Advocate

Representing the public interest

Presentation Summary

Topic Covered	Slide Number
Contact Information	1
Role and Responsibilities	3
Outreach Efforts	4
Ratepayer Advocate Website	7
Public Input Statistics	8
Summary of Key Materials	9

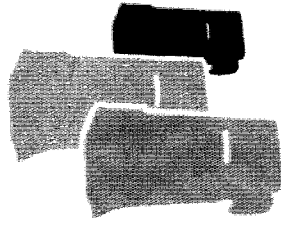


Ratepayer Advocate

Representing the public interest

Role and Responsibilities

- Primary Activities:
 - Act as an independent party.
 - Provide the public with clear information regarding the proposed new rates.
 - Assist members of the public in providing verbal and written comment.
 - Represent the views and concerns of ratepayers during public workshops and hearings.
- Related to the Hearings:
 - Assist members of the public in providing comment; represent the views and concerns of ratepayers.
 - Provide independent, summary review of the draft and final applications, with written comments.
 - Listen to Recology and City presentations, and cross examine as necessary.



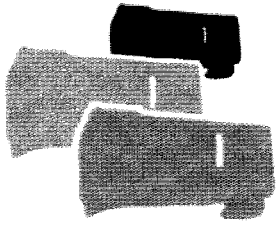
sf ratepayer advocate

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Outreach Efforts

- Board of Supervisors
 - ▼ Each member of the Board
 - ▼ The Board collectively with the announcement included in the public file
- Workshop press releases and notices
- Hearing press releases and notices
- DPW website
 - ▼ Description of the RPA role
 - ▼ Link to the RPA website
- City agencies
 - ▼ Mayor's Office of Neighborhood Services
 - ▼ San Francisco Office of Economic and Workforce Development
 - ▼ Mayor's press office



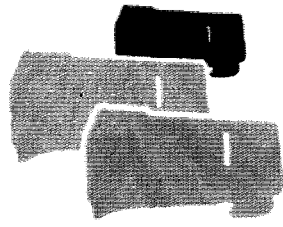


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Outreach Efforts (con't)

- Stakeholders
 - Apartment Association
 - Association of Realtors of San Francisco
 - Housing Rights Committee
 - San Francisco Tenants Union
 - Small Property Owners Association
- Neighborhood organizations
 - Coalition for San Francisco Neighborhoods
 - Bayview
 - Bernal Heights
 - Castro
 - Fillmore
 - Mission
 - North of the Pan Handle
 - South Beach

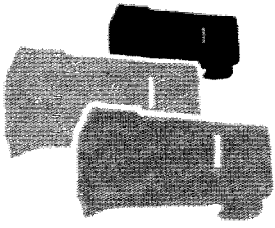


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Outreach Efforts (con't.)

- Other news outlets
 - San Francisco Neighborhood Newspaper Association and each of 14 member papers
 - Glen Park News
 - MissionLocal blog
 - Various other English-language, Chinese-language and Spanish-language newspapers and blogs
- Social media: Each meeting Tweeted out on DPW's Twitter account

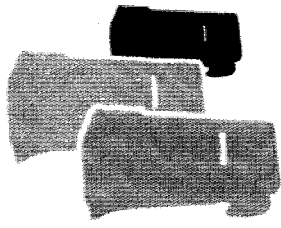


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RPA Website

- Summary of Rate Review Process, RPA Role and Schedule
- RPA Materials
 - Summary of Application
 - Workshop Summaries
 - Comments on Draft and Final Applications
 - Requests to Recology
 - RPA Comments
- Links to DPW, DOE and Recology websites

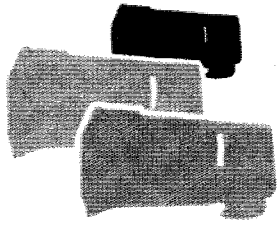


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Public Input Statistics

- 561 website views
- 6 emails received and responded to
- 11 phone calls received and responded to
- 2 meetings with interested members of the public

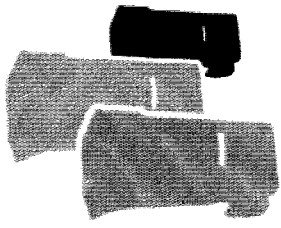


taxpayers' federation of america
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Key Materials - Exhibits

1. Hearing Presentation (April 12)
2. Comments on Final Application (April 2)
3. Summary of 2nd Workshop (March 26)
4. 2nd Request to Recology (March 25)
5. Summary of Final Application – 3 languages (March 18)
6. Comments on Initial Application (March 14)
7. 1st Request to Recology (March 14)
8. Summary of 1st Workshop (January 24)



ratepayer advocate

Representing the public interest

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April 2, 2013

To: Douglas Legg, Manager, Finance, Budget and Performance, Department of Public Works
From: Peter Deibler, Rate Payer Advocate
Cc: Jon Braslaw, Recology; Ann Carey
Subject: **Ratepayer Advocate – Comments Regarding Recology’s Final Refuse Rate Application**

Overview

It is the responsibility of the City’s Department of Public Works (DPW) to perform a full review of the Recology application, and to provide a recommendation to the City’s Rate Board regarding whether the proposed rates are just and reasonable. In representing the public interest the Ratepayer Advocate (RPA) is tasked with conducting a high level review of the application, and with forwarding questions and comments to DPW. The RPA review is not intended to duplicate that of the City.

This memo reflects our review of the final application, and is a revision of our March 14th comments on the draft application. The memo includes the items from the March 14th memo, noting in italics which issues have been addressed and those for which we still have questions. We have not revised specific dollar figures to show changes in the final application. In a number of instances, we’ve noted that although the expense or revenue numbers have been revised for the final application, our underlying question(s) remain.

We trust that DPW will take our comments into consideration in evaluating the application, requesting information and clarification from Recology, and in developing the Director’s Report. We welcome discussion of these issues during the hearing process, and anticipate having further comments and questions as the process proceeds.

The Final Application

The final application is comprised of two separate but related applications, one for collection, and one for processing, transport, and disposal. The following provides general comments that are applicable to both applications, as well as comments that are specific to the Recology Sunset Scavenger (RSS)/Recology Golden Gate (RGG) collection application, and the Recology San Francisco (RSF) processing, transport, and disposal application.



Mr. Douglas Legg
April 2, 2013
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General Comments

1. **Implementation Schedule** – The application is for a period of at least five years. We suggest that Recology be requested to provide a detailed implementation schedule for each of the various collection, processing, transport and disposal activities that are anticipated to occur over the five years. We believe this will help facilitate understanding of increased expenses, and their timing.

We have received clarification that the application is not intended to be for a five year period, and that there are several anticipated issues that will arise over the next two or three years (Zero Waste facility development funding and changes in disposal) that will likely require that rates be revised. In addition, the RPA has recommended that should the proposed changes in the residential and apartment rate structures be approved, the City should plan to compare actual revenues under new approved rates to those projected by Recology based on 12 to 18 months of actual revenues.

We realize there are relatively few proposed new program initiatives. However, we suggest that Recology be requested to develop detailed implementation schedules for the new initiatives it is taking on such as the abandoned waste program. At a minimum, they will provide baseline information for later assessing funding and performance.

2. **Expense Levels** – In general, initial expenses represent significant increases. However, few types of proposed expenses vary or decrease over time. It is likely that some of the new or increased expenses such as those associated with program start-up may be of a short-term nature, and can be decreased or eliminated in later years. Other expenses will not occur immediately upon award of a rate adjustment. We suggest requesting that Recology provide clear narrative discussion of major expense categories by program, with discussion of the extent to which expenses are short-term or ongoing.

We appreciate that there is added text in the final application regarding some of these issues, but our basic concern remains that most projected expenses are defined for one year, and will then receive COLA adjustments. We realize there are relatively few proposed new program initiatives and that most expenses might logically be expected to continue at a similar level to those for FY 2012. We would appreciate a brief but explicit discussion of this issue during the hearings, and identification of any line items for which a straight line projection does not, or should not apply.

3. **Staffing Levels** – Staffing is a significant portion of total expenses. In general, we see little or no discussion in support of the proposed staffing levels, whether for existing or expanded/new programs. While in some cases there are significant proposed increases in staffing, it is not clear why these initial levels are justified, or if the levels must be maintained over time. We suggest requesting that Recology provide a clear narrative discussion of staffing by program.



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The final application contains somewhat more detail on staffing. However, similar to the comment above about implementation schedules, understanding staffing by program and by line of business will provide baseline information for later assessing funding and performance.

4. **Operating Expenses for Processing, Transfer and Disposal** – Aside from a decrease in leasing expenses, total operating expenses increase by \$4.8 million. Are the reasons for these increases, and the specific underlying assumptions related to each line item clear to the City?

The dollar amounts have decreased slightly, but our question remains.

5. **Processing and Disposal Cost** – These significant costs are presented in the form of a single per-ton rate. Does the City have sufficient disaggregated information to understand and evaluate the individual components of this single pre-ton rate?

Upon review, our above question could have been stated more clearly as a statement: We appreciate that there is detailed expense and revenue information for the line item components of the total tip fee, such as labor and equipment. We believe it would also be useful to have one location showing how these expenses and revenues translate into net dollar per-ton figures for each of the component activities, such as ___ dollars per ton for recyclables processing, ___ dollars per ton for transfer activities (preparing material for transport for disposal), ___ dollars per ton for transport to the disposal site, ___ dollars per ton for disposal, etc. While some of this information is included in parts of the application, it would be useful in evaluating the tip fee, and in comparing elements of it to comparable elements for other facilities.

6. **Inconsistencies** – There are instances in which the narrative states that specific expenses are “not included in the base rate application”, and yet they appear to be included in the expense schedules. Several examples are noted below. In general, we suggest that there be a careful review for consistency between the narrative and the numbers, and a check to ensure that excluded expenses are in fact excluded.

After discussion, our specific concern voiced here and below has been addressed. We still encourage the review of overall consistency, as part of reasonable due diligence.

7. **Restated Expenses** The final application includes some restatement of expenses from 2012 and earlier. We assume the reason for the restatements will be addressed in the hearing record.
8. **Diversion Incentives** Recology’s proposed rate adjustment includes about \$3.8 million to fund the extra 2% of operating ratio Recology would be due for successfully meeting diversion targets. We have two point regarding the incentive payments:



Mr. Douglas Legg
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- a. *While the diversion incentives may be perfectly reasonable, we believe it would be useful to differentiate between the proposed rate adjustment and base compensation. Base compensation, as proposed, is based on the 91% operating ratio and the diversion incentive funds should not be an assumed portion of compensation. Thus, we believe it would be more accurate to state that "Recology is requesting a total rate adjustment of 21.51 percent, of which X% will be held aside by the City to fund incentive payments for successfully meeting diversion targets".*
- b. *Recology proposes that it be allowed to use the diversion incentive funding for other purposes, even if it doesn't meet the diversion targets. It is our belief that all proposed program funding and/or contingency funding should be made explicit. In addition, sending a message of "you'll get the money anyway" doesn't seem to provide a strong incentive to meet the diversion targets.*

Collection Application

1. **Contingent Schedules 1 & 2 Zero Waste Facility Expansion and West Wing Project** – Page 7 of the narrative states that "these costs are not included in the base rate application". This appears to be inconsistent with the following inclusion of expenses for these programs in the base application, while they are also included in the contingent schedules. Please clarify.
 - Schedule 1 Zero Waste Facility Expansion provides for a \$1.85 per ton (1.32%) increase over the \$140.76 per ton, for increased total expenses of \$479,783 for disposal and \$621,419 for processing.
 - Schedule 2 West Wing Project - Urban Organics provides for a \$4.66 per ton (3.31%) increase over the \$140.76 per ton, for increased total expenses of \$1,206,712 for disposal and \$1,562,943 for processing.

As noted above, our understanding is that there is no inconsistency on this specific item.

2. **Corporate Services, RGG Tab m.3** – Regarding "sustainability" expenses of \$201,900, what service is provided, and what is the support narrative for the level of expenses?

The funding level has decreased, but the underlying question remains.

3. **Legal and Professional Fees, RGG Tab m.2** – The schedule shows projected Legal Expenses and Other Professional Fees growing in excess of the 3% inflation factor. Why?

It is our understanding that these expenses are for a three year period, and are for Recology's next anticipated rate application. We assume the City will give each expense an adequate review, and obtain a clear understanding of the assumptions behind the figures.



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April 2, 2013
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4. **Contract Services, RGG Tab L.5** – There is a total of \$720,600 for the following expenses, a 3% increase over the prior yr. What are the reasons for the increases for each category?
- Fantastic 3 \$77,000,
 - General and Administrative \$344,500,
 - Recycling Development and Sales \$59,600, and
 - Equipment Installation and Services \$239,500

The funding levels have decreased slightly but the question remains.

5. **City Container Collection, RGG Tab L2 & G1** – Is the increased staffing of 12.6 FTE and the related expense of \$1,586,236 fully explained, and do the staffing level and expenses accurately reflect City plans for transfer of this program to Recology, and demonstrate a savings to ratepayers for transfer of the program to Recology?

The headcount has decreased slightly, but the question remains.

6. **Abandoned Waste Collection** - Do the proposed staffing levels and expenses for this program accurately reflect City plans for transfer of this program to Recology, and demonstrate a savings to ratepayers for transfer of the program to Recology?

The question remains.

7. **Processing Costs, RGG Tab K1** – Recycling tons and organics tons are projected to decrease and increase by relatively small amounts, respectively. However, the processing rate per ton is increased from \$140.76 to \$159.43. This increase of \$18.67 per ton results in total annual increases in recycling processing expenses of \$3,148,663, and in organics processing expenses of \$3,732,392. Why? How do these compare to comparable costs at other facilities in other communities?

The rate per ton has decreased. We assume that the City will address the question in the last sentence in the hearing record.

8. **Disposal Costs, RGG Tab J1** – Achieving zero waste will require decreasing reliance on disposal over time.
- Why are disposal tons projected to increase? Is this due to an assumed rate of population growth? If yes, is this assumed rate reasonable and does it offset increased use of the blue and green bins and decreased use of the black bin?
 - How does the projected increase in disposal affect achievement of the zero waste by 2020?
 - The disposal rate per ton increases from \$140.76 to \$159.43, resulting in total increases in disposal cost of \$4,980,290. Why?



Mr. Douglas Legg
April 2, 2013
Page 6 of 7

- Does the disposal per-ton rate reflect transfer and disposal to Altamont Landfill, as well as future transfer/transport and disposal arrangements following the end of the current disposal agreement and prior to the next rate application? If not, how will the latter be reflected in the rates?

Disposal tons are still projected to increase in the final application. In general, we believe it would remain useful for the City to ensure it has a full understanding of Recology projections. The 4th bullet is addressed above under General Comments, Item 1.

9. **Staffing, RGG Tab G1** – Additional headcount is not addressed in the narrative.

While there is additional information on the number of staff in some areas, we still do not see discussion of why those levels of staffing are the right ones.

10. **Other, RGG Tab D**

- “New Project Costs” of \$1,370,282 include what?
- “Line Supplies & Other Expense” includes a note indicating these are related to the RFID project. We suggest the City and Recology provide an overview of this project, which we understand could help shape future customer options and possibly provide increased collection efficiencies. What is the timing for developing such a program, what are its net cost benefits or impacts, and how will these be reflected in customer rates?

As discussed at the 2nd workshop, we understand that the “New Project Costs” have been eliminated for now and that the City will consider funding for RouteSmart at a later date once costs are better understood and ratepayer benefits can better be assessed.

We do request that the RFID project be discussed during the hearings. It seems that successful implementation of such a program might have interrelated benefits for improving collection efficiency, minimizing rate impacts, improving customer convenience, and enhancing diversion.

11. **Impound Account, RGG Tab f.2** –How is RGG’s contribution to the Impound Account determined? At the 1st workshop there was discussion of the increased transfers to DPW and the Department of the Environment. We suggest that City staff provide an overview of program changes and related increased expenses.

Our thanks to both City departments for addressing these items at the 2nd workshop. We understand that the final information will be entered into the hearing record.

A member of the public has raised the following question: “Is the final approved level of funding for the Impound Account guaranteed such that if actual revenues are less than anticipated, the Impound Account will still be funded at the approved level?” Our understanding is that the answer is “yes”, but we would appreciate confirmation of this in the hearing record.



Mr. Douglas Legg
April 2, 2013
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Processing, Transport and Disposal Application

1. **Contingent Schedules 1 & 2 Zero Waste Facility Expansion and West Wing Project** – Page 7 of the narrative states that “these costs are not included in the base rate application”. This appears to be inconsistent with the following inclusion of expenses for these programs in the base application, while they are also included in the contingent schedules. Please clarify.
 - RSF Tab L2 includes a new \$2,100,000 for Brisbane License.
 - RSF Tab K1 includes \$611,000 for Urban Organics
 - RSF Tab M2 provides for variation in engineering, legal and other professional fees from year to year. Why?

As noted above, our understanding is that there is no inconsistency on this specific item.

2. **Staffing, RSF Tab G.1** – Additional staffing is not addressed in the narrative.

While there is additional information on the number of staff in some areas, we still do not see discussion of why those levels of staffing are the right ones.

3. **Impound Account, RSF Tab F2** What is the disbursement to “ECO” for \$1,000,000? How is RSF’s contribution to the Impound Account determined? At the 1st workshop there was discussion of the increased transfers to DPW and the Department of the Environment. We suggest that City staff provide an overview of program changes and related increased expenses.

See comment above for #11, under Collection.





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March 26, 2013

MARCH 21ST WORKSHOP SUMMARY

The March 21st workshop was the 2nd and final one. The Department of Public Works (DPW) hearing process will commence on April 12th.

Overview

The March 21st workshop was attended by about 30 individuals.

1. DPW staff made introductory comments.
2. Recology staff presented:
 - a. The key changes from the draft to the final application. In summary, Recology's proposed rate increase dropped from 23.75% to 21.51%, due largely to changes in assumptions regarding revenues, cost of living projections, benefits costs and the removal of the RouteSmart project.
 - b. A number of examples of how the proposed rates could impact different types of residential and apartment customers.
 - c. How trends in consumer behavior and manufacturing affect the volumes of materials available to market.

See "Summary of Recology's Final Application" for a concise summary of the application. Go to the link at the top of the page to Recology's Zero Waste Rates website for a copy of Recology's presentation.

3. City Department of the Environment (DOE) and DPW staff each discussed the role of Recology's rate application in providing funding for programs in their respective departments. Highlights include:
 - a. DOE Monies will be used to help fund four programs: Zero Waste, Toxics Reduction, Green Building and Environmental Justice. The total of \$8.9 million, with a COLA includes the cost of the rate process. The DOE materials provide a breakdown of salary, benefits, overhead and other expenses for each program. As part of DOE's cost for the rate process, the agency plans to conduct a comprehensive disposal and diversion analysis it considers an essential element for getting the City to Zero Waste by 2020.
 - b. DPW Recology's refuse rate application includes about \$5.8 million in DPW funding from the Impound Account for refuse and litter services, including \$1 million for related education,



compliance, and outreach activities, as well as monies for future rate review costs. The total current year fiscal budget for these services totals \$23.4 million. Staff discussed the proposed transfer of the abandoned waste program to Recology, noting Recology's ability to collect materials for recycling as well as disposal, the expectation of faster response times for cleanup, and probable net decreases in City staffing. With regard to litter cans, Recology will continue to collect from them, and has offered to replace doors and liners as part of their regular servicing. DPW will retain maintenance responsibilities for, and ownership of the cans. The application includes funding (\$840,000 of the \$5.8 million) for DPW to purchase and replace cans. The draft DPW memo also summarizes DPW funding received from the Impound Account since 2005.

City staff provided draft materials and noted that they would be formally entered as exhibits during the pending hearing process.

4. Members of the public and the Rate Payer Advocate (RPA) addressed a number of issues.

In addition to revisiting some of the topics from the 1st workshop (see "January 17 Workshop Summary"), representative public and RPA questions and comments, and Recology and City responses included the following:

1. What is the impact of the growth in housing on projected revenues? City staff responded that they are reviewing assumptions regarding growth.
2. It would be most appropriate to set a rate with the expectation by all parties that the following key elements of the rate will be, or in some cases must be revisited within the next 2-3 years:
 - a. Recology's proposed changes in the rate structure, and resulting Recology revenue are predicated on assumptions about customer changes in the amount, type and frequency of collection. This is particularly true for apartment rates since there is little comprehensive experience with "right-sizing" and migration in that sector. Assuming the proposed rate structure changes are approved, after one year or 18 months the City should verify the validity of these assumptions, and make any necessary modifications going forward.
 - b. New costs for the design and building of a "Zero Waste facility" that is now in the early planning stage. The Recology application includes contingency costs for this purpose, but they are excluded from the base application. Recology agreed it will not be collecting revenue to cover these costs in advance of incurring them.
 - c. The expiration of the Altamont landfill contract, regardless of the future disposal location will result in changes to transport and disposal costs.



March 21st Workshop Follow-Up

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3. There was a request for City and Recology assistance in training apartment tenants to better participate in blue and green bin service, and/or to provide other tools that would help with ensuring tenant compliance.
4. There was some discussion of modifying City and County ordinance to allow property managers to pass-through increases in refuse rates to tenants, in a manner similar to that allowed for other utilities.
5. There were questions about revenue from City citations for violations such as improper set-outs, abandoned waste, etc. Staff responded that the revenue is minor and is used to offset program costs.
6. What are the revenues from sales of compost? City staff responded that there will be a hearing exhibit showing tip fees at composting facilities, and the role of revenue.
7. Are there opportunities for savings from planned consolidation of customer service, more frequent billing?

How You Can Participate

The March 21st was the final workshop. The rate hearings in April and May will be more structured, and there will be greater focus on hearing public comments within an allotted time period. Written materials may be submitted during the hearings and will become a part of the formal record of the rate review process. The goal is to help ensure the public has the opportunity to provide the widest possible range of input, and to minimize duplication of comments.

Please email or call us if you would like to submit written or oral comments the pending hearings.

