DIRECTOR'S REPORT AND RECOMMENDED ORDERS

2013 RATE APPLICATION FROM RECOLOGY SAN FRANCISCO, RECOLOGY SUNSET SCAVENGER, AND RECOLOGY GOLDEN GATE

June 7, 2013

Director's Report on the
2013 Refuse Rate Application
Table of Contents

Attachments

1. Introduction

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

2. Summary of the Companies' Application

The Companies' final "2013 Rate Application" (Exh. 1) consists of a letter, narrative summary, rate schedules, and modifications to the standardized format. The Companies also submitted audited financial statements for Recology San Francisco ("RSF"), Recology Sunset Scavenger ("RSS"), and Recology Golden Gate ("RGG") for fiscal years 2007 through 2012.

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

The Companies are requesting an average increase in residential and apartment collection rates of 21.51%, and an increase in the RSF tip fee of 6.45% (from $140.76 to $149.84 per ton). The Companies propose significant changes to the residential rate structure. Currently, residential charges are based solely on the volume of trash (black bin) service, although service includes collection and processing of recyclable (blue bin) and compostable (green bin) materials. The Companies propose to add a fixed monthly charge of $5 per residential unit, as well as a monthly charge of $2 for each 32-gallon blue and green bin (larger bins would be charged for each multiple of 32-gallons); the charge for the black bin would continue to be volume-based. According to the Companies, a typical household, with three 32-gallon bins, would see a monthly increase of $6.60, from $27.91 to $34.51 (Exh. 1, Letter, p. 2). The Companies last adjusted rates for inflation in July, 2010.

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

The Companies state that the proposed structure is a step toward aligning the rates charged with the cost components of residential and apartment services. The new structure also is designed to mitigate against the impact of declining trash volumes on total revenues, as San Francisco moves closer toward its goal of zero waste by 2020.

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

3. Procedures

The burden of proof is on the Companies to demonstrate, through evidence on the record, that the rates they seek are "just and reasonable." Pursuant to the 1932 Ordinance, DPW Order No. 181,252 ("Rules of Procedure"), and DPW Order No. 173,617 ("Rate Adjustment Standardized Format"), in response to the filing of the Application, DPW held a series of workshops and public hearings. An informational workshop was held on the draft Application on January 17, 2013, and a technical workshop was held on the final Application on March 21, 2013. Both workshops were publicized through press releases, social media postings, notifications to neighborhood groups and various property owner and tenant associations, along with postings on DPW's website and the Ratepayer Advocate's website. I held six public hearings on April 12, 15, 22, and 24, and May 20 and 22, 2013. These hearings were advertised in the San Francisco Chronicle and notice was posted at the San Francisco Main Library Government Information Center and on the DPW website. DPW also sent out press advisories and notices to neighborhood groups. The hearings were transcribed.

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

4. Staff Review

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

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

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

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

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

On March 29, 2013, I made a determination that the Companies' final Application was complete with respect to the requirements enumerated in DPW's Rules of Procedure, Section II(B)(1). I directed staff to review the Application and prepare a report with recommended adjustments.

Staff and consultants continued to review the final Application, including validating that the changes requested in the draft Application were made, and testing other assumptions used by the Companies, particularly with respect to tons of materials handled and revenue projections. An independent Certified Public Accountant analyzed Recology's audited financial statements to assess the appropriateness of inter-company charges, allocated corporate expenses, allocation methodology, and lease terms and costs. During the public workshop and the Director's hearings, staff questioned the Companies extensively on their methodology and assumptions, presented additional information, and considered the comments of the Ratepayer Advocate and members of the public. Collectively, that process and information informed the staff's recommended adjustments, which were presented in the staff report (Exh. 65).

After extensive review, staff proposed a number of changes in the Companies' rate schedules that affect both the tip fee charged by RSF and the collection charges levied by RSS and RGG. For RSF (the operator of the transfer station complex and the recycling facility), staff recommended reducing RY 14 expenses by $1,476,056; these changes reduce the proposed tip fee from $149.84 to $147.23 (an increase of 4.60% over the current rate), which flows through to the collection companies. For RSS and RGG, staff recommended a reduction of $2,879,561 in expenses, and an increase of $1,961,159 in revenues used to calculate the required rate adjustment. The cumulative changes recommended by staff reduced the average residential rate increase to 19.14%.

In addition to these revenue and expense adjustments, staff recommended retaining the caps on apartment customers at 25% in RY14 and 50% in RY15, and proposed returning to the rate base some revenue realized from lifting these caps. Staff also proposed modest changes to the cost-of-living-adjustment mechanism that would be applied in future rate years, and to the zero waste incentives.

5. Summary of Director's Recommendations

I have given careful consideration to the Companies' Application, the staff recommendations, and public comment in formulating my recommended order and report on the 2013 Application. I agree with most of the staff recommendations, as those recommendations were based on an abundance of evidence in the record and on experience in prior rate applications. For a few items, I have reconsidered the evidence presented by staff and the Companies in rebuttal, and have modified the recommended adjustment to the Application, as detailed in subsequent sections of this report. Collectively, these changes lead me to the following recommendations:

- I recommend that Recology San Francisco's maximum disposal rate should be $147.11 per ton in RY14.

- I recommend that the maximum monthly collection rate for Recology Sunset Scavenger and Recology Golden Gate for weekly service of a 32-gallon trash bin for residential customers be set at $25.08.

- I recommend a fixed monthly charge of $5 per residential unit and $2 per 32-gallons of capacity for recycling and composting bins.

- I recommend that the maximum monthly collection rate for Recology Sunset Scavenger and Recology Golden Gate for weekly service of a 20-gallon trash bin for residential customers be set at $15.68, which is equal to 62.5% of the 32-gallon rate (20/32), rather than the previously established 77%, making all volumetric charges proportional.

- I recommend a change in apartment rates, patterned on the current commercial rate structure. The apartment rate includes a fixed monthly charge of $5 per dwelling unit, plus a volume charge of $25.08 for each 32 gallons of capacity for all bin types (black, blue, green). The volume charge will be discounted by the customer's amount of recycling and composting service (the blue and green bin volumes) relative to their trash service (the black bin volume), up to a maximum discount of 75% of the volumetric charge.

- I recommend that other residential and apartment charges (e.g., distance, elevation, key and special services), as listed in the rate schedule (Attachment B), be adjusted by 19.91%, which is the effective overall increase in collection rates.

- I recommend that in RY14, rate increases for individual apartment customers be capped at 25% of the current charge for existing services; and in RY15, rate increases for individual apartment customers be capped at 50% of the current charge for existing services.

- I recommend adoption of a cost-of-living adjustment (COLA) mechanism, such that rates will be adjusted annually on July 1 of each year to account for inflation, and that the COLA mechanism will remain in effect until a new rate order is adopted.

- I recommend that zero waste incentives (formerly known as diversion incentives) be continued, with up to a possible 2% decrease in the operating ratio based upon the Companies' performance in diverting materials from the landfill.

- I recommend new toxics collection incentives for the Companies to further capture toxics from the waste stream, contingent upon funding being provided by an Extended Producer Responsibility Fund. Product producers would deposit money into this fund for collection and recycling or safe disposal of their products. The City is currently working with the paint and battery industries to deposit money into this fund.

- I recommend that the Companies be allowed to include the costs of the west wing project to expand trash processing in the collection and disposal rates, once the project has met certain contract and permitting milestones as proposed in a Contingent Schedule.

A complete rate schedule reflecting my conclusions and recommendations is provided in Attachment B. Once final, the rates will become effective on August 1, 2013. I direct staff to work with the Companies to revise the schedules included in the Application to reflect the revenue and expenditure adjustments contained in this report, and which are enumerated in Attachment C. The revised schedules will become the baseline against which the Companies' actual revenues and expenses can be compared to projections upon which my recommended order is based.

6. Residential and Apartment Rate Structural Changes

The Companies propose several structural changes in the residential and apartment collection rates. According to the Companies, these structural modifications are necessitated as customers produce less trash and increase the volume of materials being recycled and composted, which also require collection and processing. I agree that the current rate structure, based on applying total costs only to shrinking black bin trash, is not sustainable. I recognize there are fixed costs not dependent on the volume of refuse collected from a household and agree that, especially with the adoption of San Francisco's Mandatory Recycling and Composting Ordinance in 2009, households will still be motivated under the proposed rate structures to recycle and compost. To address this structural imbalance, I approve the following:

- A fixed $5 monthly charge per dwelling unit.
- A monthly residential charge of $2 per 32-gallon bin for recycling and composting collection.
- Setting the residential 20-gallon trash bin rate at 62.5% of the 32-gallon rate (20/32), rather than the previously established 77%, making all volumetric charges proportional.
- For apartments, changing to capacity charge for all three bin types (black, green and blue) with a diversion discount, up to 75%, equal to diversion volume percentage minus 10%.

7. Revenues

A critical factor in setting the refuse collection and disposal rates is an estimate of the revenues the Companies will collect in the future. The Companies attribute fully 16.1% of the total 21.5% requested rate increase (or 75% of their request) to a revenue shortfall due to a combination of migration to diversion service (i.e., recycling and composting) and the general economic downturn (Exh. 1, p.23). As I noted in the previous section, charges in the residential and apartment sectors are currently levied only on black trash bin service. Collection and processing of the other two material streams -- recyclables and compostables -- requires an equivalent level of effort, and therefore expenditure. As customers have been shifting away from larger trash containers, or to less frequent collection, in an effort to save money and to comply with the Mandatory Recycling and Composting Ordinance, revenues collected by the Companies have gone down. Likewise, in the commercial sector, where there is a diversion discount, customers have been shifting away from non-discounted trash service.

I concur with the staff report that the base on which revenues are generated is shrinking while overall programs and services for collecting the three waste streams, as measured by tons disposed and processed and collection routes required, are staying essentially flat. I want to emphasize to all interested parties, including the public, that a revenue shortfall caused in large measure by changes in the economy and behavior encouraged by official City policies, more than any cost increases, is driving the requested increase in refuse collection rates. I also would note that other jurisdictions throughout California are grappling with the issue of a shrinking rate base (i.e., trash volume) and are considering changes in refuse rate structures similar to those being proposed by the Companies.

7.1 Apartment Revenue Adjustments

The Companies projected apartment revenue to decrease in RY13 and then be the same in RY14 (Exh. 1, RSS/RGG Sch. F.1). The staff report recommended apartment revenue growth of 2.5% in RY14 (Exh. 65, p. 6) based on the number of units projected to be completed in the San Francisco Controller's Office Development Pipeline February 2013 (Exh. 67). The Companies stated that the number of units should be reduced, because some units already were occupied and some were commercial, and new units occupied should be at the minimum service level of 16 gallons of trash capacity per unit (Exh. 79). Through testimony, the Companies demonstrated that the two apartment buildings listed on Exhibit 79 which have opened this year, are in fact receiving the minimum service level (Tr. p. 763). Staff then identified additional buildings under construction, but not listed in the Pipeline (Exh. 96) and argued that commercial apartment units should be included in the overall analysis of revenue.

I agree that the buildings staff identified in Exhibit 96 should be added to revenue and accept the 16 gallon minimum advocated by the Companies. I have increased RY14 revnues by $642,440 for these additional apartment units. The Companies stated that 900-1,200 more units, depending on the number of customers, would require an additional collection route (Tr. p. 818). The Companies did not provide a basis to add collection costs. These 20 customers represent only a marginal increase in collection. At least three of the buildings, representing 2,032 of the 3,597 units, would have compactor roll-offs for trash, which are much more efficient than the service provided by regular collection routes. Therefore, I believe I have allowed sufficient collection expenses to service these buildings.

I agree with the Companies' argument that the new apartment units will increase the total amount of materials that will be handled. Consistent with the methodology proposed by the Companies (Exh. 81), I have made adjustments to the total amount of materials handled (including trash, recyclables and compostables) from both the new apartment units and the decrease in apartment migration from 2.5% to 1.4% (see section 7.2), and the corresponding increase in disposal and processing charges. I also have made adjustments in the zero-waste incentive targets to reflect the additional tonnage.

7.2 Apartment Migration and Caps

The Companies estimated that there would be a 2.5% reduction in apartment revenue due to migration to less expensive service when the new rates were implemented (Exh. 1, p. 29). The Companies said this level of migration was seen in the commercial sector when a new rate structure was introduced (Exh. 52). Staff found the Companies did not produce evidence showing that apartment owners would respond to the new rate structure in the way commercial customers have, and instead argued that the best guide was the historic migration rate of 1.4% as recycling and compost service has been adopted in apartment buildings. The Companies did not contest staff's finding, except to note that the number of tons collected, disposed and processed should be revised (Exh. 81, p. 2). I accept staff's recommendation on the revenue impact due to migration, and have accounted for the changes in tonnage as described in section 7.1.

The Companies also proposed capping apartment rate increases in RY14 and RY15 to allow customers an opportunity to adjust to the new rate structure and modify their service levels. The Companies presented an exhibit showing that a total of $4,571,055 in revenue could be realized when the caps are removed, if there is no migration (Exh. 54), but contend that changes to service levels and configuration will offset any additional revenue generated by the removal of caps. Staff did not agree that all revenue from removal of the caps will be offset by service adjustments. To mitigate such a revenue windfall, staff recommended that one-half of the total potential excess revenue be returned to the rate base in the annual COLA adjustment process. The Companies did not contest the staff recommendation, but noted that with a lower proposed rate adjustment and smaller migration rate, the total amount of revenues generated without caps would be lower (Exh. 80). I concur with the staff recommendation to return one-half of the potential excess revenue to the rate base, beginning in RY15, and have followed the Companies' methodology to calculate the excess value. Based on my recommended rate increase of 19.91%, the potential excess revenue from the removal of caps would be $3,374,310; one-half of that amount, or $1,687,155, should be returned to the rate base in the annual COLA adjustment process. My recommendation ensures that all classes of ratepayers will benefit from removal of the caps on apartment rates and apartment customers will continue to have an incentive to right-size their service.

8. Program Expenses

Staff conducted a thorough review of the collection, processing, and disposal operations of the Companies, as detailed in Section 8 of the staff report. Staff found that most of the Companies' proposed expenses were accurate and reasonable, and did not recommend adjustments to those line items. However, staff also recommended that the Companies do more to control costs in the areas of health care, pensions and workers' compensation. Staff argued that the Companies could do more to control health care costs if they required employees to make regular contributions for their health care coverage and if they required employees to make co-payments for medical visits. Staff provided evidence that the City requires these sorts of contributions from its own employees for health care, while the Companies do not (Exh. 76). Staff noted that the City, by voter mandate, also has enacted a number of changes to its pension system that have lessened the City's pension liability. Staff recommended, and I agree, that the review of future rate applications should consider the reasonableness of overall negotiated pension and health benefits, including requiring co-payments when determining what portion of those expenses are appropriate to include in the rate base. In future rate reviews staff also may consider recommending excluding from the operating ratio the health care cost increases that are above a reasonable amount.

Likewise, workers' compensation costs for the combined Companies are projected to increase by 12.1% in RY13 and 7.2% in RY14 based on actuarial projections and broker estimates. I am concerned about increasing workers' compensation costs and seek assurances from the Companies that their safety programs are effective and that the Companies are doing everything in their power to minimize accidents and injuries and associated workers compensation costs. DPW has been able to reduce its Loss Workday Case Rate from 10 to 1 simply by implementing a return-to-work policy and also has reduced its total Recordable Injury Rate from 18 to 8. I understand that the Companies hired a new Safety Director two years ago and are in the process of implementing a number of changes to its safety program. DPW safety program managers have expressed a strong desire to collaborate with the Companies to determine if there are opportunities for the Companies to undertake some of the actions DPW has taken to improve its own safety record and reduce workers' compensation costs. I strongly encourage the Companies to undertake such a collaborative effort.

While this application contained little in the way of new programming, the Companies did propose new trash processing efforts. Staff estimates that about half the materials in trash bins are recyclable or compostable. The Companies proposed to expand their testing and experience with processing trash to remove compostable and recyclable materials. The project will increase landfill diversion and also help evaluate low temperature, mechanical/biological processing options for a future zero waste facility. I concur with staff that the proposed costs are reasonable and that this project is a critical next step toward the achieving City's goal of zero waste.

The sections below indicate those areas where I agree with the staff's recommended adjustments, and those areas where I propose adjusting the staff recommendations.

8.1 Recology San Francisco

I concur with the following modifications to program expenses at RSF, as recommended by staff:

Schedule	Recommended Adjustment	Exh. 65 page no.
E	Reduce “City Can Allocation” tonnage by 1,643	12
G.1	Reduce Recycle Central Regular Payroll - FTE Union - Sorter/Material Handler from 67.5 to 65.5	8
G.2	Reduce RSF Local 3 pension expense from $10.35 to $10.11	10-11
G.3	Reduce reinsurance fees from $110 to $63	8-9
H.2	Increase lease term for stationary equipment from 7 to 10 years	13-14
L.2	Remove incorrect license and permit expense of $12,000 in RY12	14
L.2	Disallow operating ratio on Brisbane license fee	15
M.2	Reduce inflation factor on corporate services expenses from 3.4% to 3.2%	15
M.2	Exclude certain corporate expenses from allocation to SF companies (as corrected)	15

8.1.1 Composting Tip Fee

The staff report accepted the Companies’ testimony that compostables with a “large percentage of food waste” require more processing, and therefore have greater costs, than material containing a lesser amount of food scraps (Exhs. 43 and 44). However, the staff report did not accept the Companies’ claim of an overall diseconomy of scale for processing greater quantities of this type of material, and did not find that the Companies adequately explained or documented the claim (Tr. pp. 516-522). The staff report found that while a higher concentration of food scraps increases processing costs, cost efficiencies can be gained in processing larger quantities of similar material since much of the infrastructure and operations have a significant fixed-cost component as is standard in the composting industry (Exh. 65, p. 13).

The Companies provided rates per ton that Recology organics facilities charge customers based on the percentages of food scraps delivered. Customers with a “large percentage of food waste” are charged $45.00 to $50.20 per ton, which is the highest range for all types of customers and includes “San Francisco plus 6 other customers,” and represents 189,000 tons per year (Exh. 57). The Companies proposed $48.64 per ton for the 156,060 tons per year of compostables from San Francisco (Exh. 1, RSF Sch. J.1.). The staff report recommended that San Francisco, being the largest Recology organics group customer, representing 83% of the tons from customers with a “large percentage of food waste,” receive the most competitive rate in that customer category of $45 per ton (Exh. 65, p. 13).

The Companies provided additional information on what each customer in the “large percentage of food waste” customer type is being charged per ton (Exh. 77). They further testified that San Francisco’s material has more contamination and requires greater processing than the materials from customers being charged less. But the Companies did not adequately refute the staff report’s finding that the fixed costs, spread over the large proportion of food scrap tons delivered by San Francisco, creates some cost efficiencies that should contribute to a lower cost, even when in a “step-function” manner as testified by the Companies (Tr. pp. 647-659, 661-684). Balancing the increased costs of processing San Francisco’s more challenging compostables with some efficiencies of greater quantities compared to other customers, I recommend that the intercompany processing rate per ton for compostables be set at $47.60, the midpoint between $45 and $50.20.

8.1.2 Brisbane Tax

The Companies included a new Brisbane recycling fee of $2.1 million for RY14 (RSF Sch. L.2 Licenses & Permits) in the Application. At the April 15 hearing (Tr. pp. 13-17), the Companies confirmed that this is the business license tax on large recycling establishments adopted by the Brisbane voters in 2011 and City Council in 2012 (Exhs. 31-32). The Companies believe there is no way to avoid this tax and still provide San Francisco with current and expanded levels of service at the transfer station (located on property that borders both San Francisco and Brisbane). The Companies also verified the tax is treated as an operating ratio expense in the application (Tr. pp. 48-49).

Staff found that there is little risk that Brisbane voters or the City Council will modify this tax and it has a built-in Consumer Price Index adjustment. Staff agreed that the tax is unavoidable, but recommended it be treated as a pass-through, non-operating ratio expense, as are other business license fees and taxes imposed by other counties (primarily in Alameda).

The Companies argued that there is risk connected to the fee. Furthermore, they argued that, unlike the Alameda County fees, which are the result of a City contract (for landfill services), the Brisbane tax is the result of a business decision made by the Companies, and therefore should be subject to the operating ratio. I find the Companies argument unpersuasive and agree with staff that this is a pass-through cost that should not be subject to the operating ratio. Furthermore, I recommend that in the next full rate process, staff examine whether there are other pass-through expenses which should be excluded from the operating ratio calculation.

8.2 Recology Sunset Scavenger/Recology Golden Gate

I concur with the following modifications to program expenses at RSS/RGG, as recommended by staff:

Schedule	Recommended Adjustment	Exh. 65 page no.
B.3	Reduce apartment migration to 1.4%	6
D, F.1	Remove one route for pay per setout test	5
G.1	Reduce G&A Regular Payroll - FTE Union - Clerical from 24 to 23	7-8
G.1	Reduce T&G Regular Payroll - FTE Union - Shop from 51.3 to 50.3	8
G.3	Reduce reinsurance fees from $110 to $63	8-9
J	Increase Fantastic 3 trash tonnage by 1,643 from “City Can Allocation” reduction	12
M.2	Reduce inflation factor on corporate services expenses from 3.4% to 3.2%	15
M.2	Exclude certain corporate expenses from allocation to SF companies (as corrected)	15

I recommend several changes to the staff adjustments, as detailed below.

8.2.1 Pay Per Setout

The Companies included costs and revenue credits for a Pay Per Setout test. The test gives curbside customers the opportunity to put their black trash bin out only when necessary and receive a discount for each week they do not have their black bin out for collection (Exh. 39). I agree that developing and evaluating new collection, routing, tracking and billing systems are critical as San Francisco moves towards zero waste.

The Companies proposed adding three test groups in RY14 to the existing RY13 group. I concur with the staff report finding that two new groups in RY14 are sufficient for testing purposes (Exh. 64, p.5), and recommend eliminating one group and its related costs and revenue credits. However, given that this program is still in the testing stage, I agree with the Companies' proposal to amortize the costs over three years, the anticipated effective period of the new rates, rather than seven years as recommended by staff.

8.2.2 CNG Vehicles and Facility Improvements

The Companies propose continuing to replace existing biodiesel collection vehicles with compressed natural gas (CNG) vehicles. City staff identified a program sponsored by the California Energy Commission (CEC) that offers a rebate of up to $32,000 per CNG vehicle. The Companies did not provide evidence that they were taking advantage of the rebate program. The program started in February 2012 and is scheduled to run until April 2014. While program funding has been exhausted at this time, I urge the Companies to monitor funding availability and document any CEC funds received or secured for trucks to be purchased in RY13 and RY14. Further, I propose that any rebates received under this program be used to adjust lease expenses in the next rate application.

The Companies propose to upgrade the facilities at RSS and RGG where CNG vehicles are fueled and maintained. Staff initially recommended that only the RSS facility improvements be included in the rate base, and that RGG facility improvements be postponed until a larger share of its fleet is converted to CNG. During the hearings, the Companies made a compelling argument that the upgrades are necessary to ensure the safety of drivers and mechanics working in these facilities, as CNG is highly combustible, and that the upgrades are dictated by environmental and safety standards (Tr. pp. 758-761). I conclude that the facility upgrades for handling CNG vehicles at RGG be included in the rate base, and that the Companies submit evidence that the investments have been made and that the facilities meet all regulatory standards.

8.2.3 CNG Fuel Expense

The Companies projected increasing their CNG fuel use to 539,474 liquid fuel equivalent gallons in RY14, with the cost per gallon increasing with inflation (Exh. 1, RSS/RGG Sch. L.3). That price was based on fueling vehicles off-site. To reduce costs, the Companies recently began fueling vehicles using natural gas purchased from PG&E and compressed at RSS. Staff recommended $733,733 in savings through expanding this on-site fueling (Exh. 65, p. 14).

The Companies provided additional, but inconsistent information on their CNG usage, ability to fuel more vehicles on-site, and expenses. The revised RSS/RGG Schedule L.3 (Exh. 90) reduced RY14 CNG to only 396,087 equivalent gallons. Their Exhibit 84 On-Site CNG Fuel Cost detail included compressor lease costs of $132,000 divided by only 114,000 equivalent gallons per year, resulting in a high price per equivalent gallon.

The Companies are capable of making a better transition to CNG, doing more on-site fueling sooner and taking greater efforts to reduce expenses. We have allowed sufficient headcount for them to maximize on-site fueling. I accept their original Exhibit 1 projection of 539,474 gallons and Exhibit 84 $1.02758 per gallon for a CNG fuel cost of $554,353. I recommend moving the compressor lease cost of $132,000 out of the fuel calculation into a separate lease cost item.

8.2.4 Abandoned Materials Collection

At the City's request, the Companies included costs for the assumption of responsibility from the City for responding to 311 calls for abandoned materials. Under the proposal, the collection companies would divide the City into five zones and utilize two trucks per zone, one packer and one box truck (DPW currently uses only a packer truck on each route). By operating the program in a similar manner to the existing Bulky Item Recycling program (with box trucks for mattresses, electronics, appliances, and other potentially recoverable items), the Companies anticipate generating greater diversion of materials than DPW can achieve with a single packer truck on each route. Assigning two trucks per zone potentially allows for higher service levels, as the trucks can operate independently depending on the materials to be collected (Tr. p. 299). Drivers also will be instructed to collect any abandoned materials along their routes, even if it is not in response to a 311 call (Tr. p. 732). Recology has set a goal of responding to service calls within four business hours on weekdays and within eight business hours on weekends.

I concur that the Companies are better positioned to deliver more effective collection of abandoned materials, and find the incremental costs for staffing, vehicles and supplies reasonable. I direct DPW staff and the Companies to agree upon a mechanism using 311 call center data for tracking the Companies' actual response time, service levels, and amount of materials collected and diverted to evaluate the effectiveness of the program. DPW should post monthly reports on its website beginning no later than August 2014 that includes data from the previous month. (I provide this length of time to ensure that data is available and clean, and also so the Companies have time to work bugs out of the system.) I also encourage the Companies to continue to evaluate alternative program configurations that could increase service levels in each zone or reduce response time within the same level of resources, including development of strategies to move more materials into the Bulky Item Recycling program, or to combine special routes for public litter receptacles with those for abandoned material collection.

Staff recommended establishing incentives to ensure that the Companies meet their response-time goals, and proposed that beginning in RY16, the following offset would be applied to the cost-of-living adjustment if the Companies fail to meet the response time goals:

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

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

At hearings on the staff report, the Companies expressed concerns that the volume of material may increase once they assume this service (Tr. p. 727) and that being subject to a penalty as soon as April 2014 was impractical, as they have never provided such a service before (Tr. p. 723). They suggested that incentives were not needed for them to achieve their goals and proposed modifications to staff's proposed incentives (Exh. 83), suggesting that the proposed incentives should account for the possibility that the number of calls or tons would increase so as to make it impossible to meet the goals with the level of funding that has been provided. Specifically, the Companies suggested that data should not be counted on any day that calls are 20% higher than the average number of calls per day, and that if total call volume and tons increased by 20% on a regular basis that the Companies be allowed additional revenue that would be held in the Impound Account.

I agree with the staff recommendation, and the Ratepayer Advocate (Tr. p. 742), that incentives for this program are appropriate, as the Companies are allowed to earn a profit on this new service. I think the staff framework and timeline are appropriate. While it is my hope that the amount of illegal dumping in San Francisco does not increase, I agree with the Companies that it would not be fair to penalize them should more materials be abandoned on the streets. Therefore, I recommend that no offset be applied should the total number of 311 calls received be 15% greater than those received in the corresponding month in 2012, the year on which the Companies' proposal was based. I further recommend that the Companies, in consultation with staff, propose modifications to the incentive program in their next rate application.

9. Adjustments in Future Rate Years

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

9.1 Cost-of-Living Adjustment Mechanism

The City and the Companies established the current cost-of-living adjustment (COLA) mechanism as part of the last rate application process to allow recovery of cost increases due to inflation. That mechanism incorporates a weighted COLA formula tied to either known (fixed) cost increases, or published indices such as the Consumer Price Index (CPI), the Producer Price Index (PPI), and a fuel index. The Companies proposed modifying to the current COLA mechanism, primarily by adding a Health and Welfare ("H&W") component. Staff recommended further modifications to more accurately align the weighting of COLA components with the Companies' cost structure. Staff also proposed adding components representing the pension and natural gas expenses (Exh. 64, p. 16).

The table below summarizes the factors, index or source, and the weighted value of each factor; the weightings reflect my recommended adjustments to expenses, as detailed in this report:

COLA Factor	Source/Index	Weight
Fixed Labor	As per CBAs	42.34%
Variable Labor	SF-CPI (U)	25.93%
Variable H &W	Mercer Analysis	11.83%
Biodiesel Fuel	Weekly California No. 2 Diesel Retail Prices	2.84%
CNG Fuel	PG&E Series G-NGV1	0.71%
Capital	No Inflation	9.12%
Pension	Weighted Pension Increase Towers Watson	7.23%

The Ratepayer Advocate recommended that annual COLA adjustments be capped, but did not recommend a basis for such a cap (Tr. pp.806-810). Staff pointed out the COLA was tied to indices that represent actual cost increases and did not believe capping these indices was appropriate (Tr. pp.808-809). Under the staff's recommended mechanism, there is a cap of 5% on the variable labor COLA rate, and the collective bargaining agreements cap allowable salary increases (Exh. 37, p.3-4). Otherwise staff's recommended changes to the COLA mechanism were not challenged and I recommend they be adopted. I believe that ratepayers are adequately protected from extraordinary annual adjustments as caps are applied to all but the fuel and health and welfare portions of the COLA. Additionally, there is always the opportunity for the City or interested parties to file a new rate application in response to extraordinary increases.

Under the proposed mechanism, where the fixed labor inflation factor is tied to the negotiated labor rates in the collective bargaining agreements and the variable H&W rate is tied to costs increases as calculated by Recology's insurance carrier, there is no direct incentive for Recology to aggressively negotiate and limit increases in labor and health benefits to the benefit of the City's ratepayers. If an appropriate industry index, such as the Employer Costs for Employee Compensation (ECEC); Private Industry, All workers, Health Insurance CMU2150000000000D, CMU2150000000000P were used, the Companies would be more likely to negotiate health care benefits that are more in line with the industry and the City. As such, I recommend that the COLA mechanism be reviewed and modified, as appropriate, in the next rate review process.

The appropriate COLA increase is determined based on the 12 months from April to April of each year and will be effective the following July 1 of each year. The COLA mechanism will be applied annually until there is a new rate order. It is possible that there will be a negative COLA. As it has in the past, DPW will issue a new rate schedule by July 1 of each year showing the actual residential rates including the COLA. In order for me to review the proposed COLA and issue the appropriate rate schedules in a timely manner, the Companies must submit the COLA calculations and backup documentation to DPW no later than May 20 of each year. Failure to submit such information by that date may result in a delay in implementation of a new rate schedule.

9.2 Zero Waste Incentives

The Companies proposed updated zero waste incentives based on tons landfilled with four tiers; an operating ratio reward of 0.5% is available for each tier. They proposed Tier 1 be RSF Schedule E Total Disposal plus Sunset Tunnel & Beatty Trash Diverted tons. They proposed Tier 4 be the straight line amounts from Tier 1 to a 90% reduction in those tons by 2020. Tiers 2 and 3 would be equidistant between Tiers 1 and 4. The Companies also suggested that when zero waste incentives are not achieved, the Companies be allowed to propose to use unrealized incentive payments for new diversion programs, subject to SFE and DPW approval.

Staff supported most of the methodology proposed by the Companies, but staff recommended the first tier be only RSF Schedule E Total Disposal tons. Staff also recommended the first two tiers be rebated to ratepayers if they are not achieved. Staff agreed the Companies should be allowed to propose to use Tier 3 or 4 funds for new diversion programs, if the incentives are not achieved, and outlined the City's approval process (Exh. 65, pp. 17-18). The Companies did not strongly rebut staff's recommended changes.

I support all of the staff recommendations on zero waste incentives. At the completion of a rate year, the Companies may request funds not to exceed the Tiers 3 and 4 amounts not achieved. The proposal shall include a description of the landfill diversion project, a detailed budget and timeline, and annual landfill tons to be reduced. SFE will evaluate if the proposal should be funded or not. If recommended, DPW may approve or reject the proposal. If either SFE or DPW reject the proposal, the funds would be rebated to ratepayers in the normal fashion when a tier is not achieved.

Adding revenue from apartment units and reducing apartment migration, as discussed in Section 7 of this report, increases RSF Schedule E Total Received tons to 933,121 and Total Disposal tons to 355,980. This results in the following zero waste incentives:

Rate Year	Disposal Tonnages			
	Tier 1	Tier 2	Tier 3	Tier 4
2014	355,980	345,036	334,091	323,147
2015	355,980	334,091	312,202	290,313
2016	355,980	323,147	290,313	257,480
2017	355,980	312,202	268,424	224,646
2018	355,980	301,258	246,535	191,813
2019	355,980	290,313	224,646	158,979
2020	355,980	279,369	202,757	126,146
2021	355,980	268,424	180,868	93,312

9.3 Toxics Collection Incentives

The City has worked with the Companies to introduce safe and convenient collection and recycling options for commonly generated household hazardous wastes such as spent batteries, fluorescent lamps, and paints. The City proposes to increase the capture of these wastes through the introduction of a toxics collection incentive program. As detailed in the staff report, funds for incentives would be provided by manufacturers of these products through an Extended Producer Responsibility (EPR) Fund, and not by San Francisco ratepayers. Once established, the EPR Fund would be used to provide incentives to the Companies for reaching capture rate or diversion tonnage targets established by the City.

I concur with the objectives of the toxics collection incentive program and direct staff to prepare procedures to implement this program, once funding has been secured. The procedures should include diversion targets, reimbursement levels, reporting requirements, and provisions for rebating unused funds to ratepayers. Any disbursements from the EPR Fund would require my prior written approval.

I emphasize that the proposed incentive program is contingent upon agreements reached with manufacturers or product stewardship organizations. If, for whatever reason, the City does not receive monies from manufacturers or product stewardship organizations, the Companies will not be eligible for toxics incentive funds. In no event will the amount of the incentive exceed the monies received by the City from manufacturers or product stewardship organizations.

10. Contingent Schedules

The Companies' Application includes two contingent schedules, with rate adjustments to go into effect when certain conditions are met. Consistent with the findings in the staff report, I recommend as follows:

I deny Contingent Schedule 1 for the purchase of land at the Tunnel and Beatty site for a zero waste facility expansion. The staff report contains an extensive discussion of the difficulties in determining what costs ratepayers will be reimbursing the Companies for in the future acquisition of land for new facilities (Exh. 65, pp. 22-23). I agree with staff that more time is needed to determine what the cost and terms of a real estate transaction will be before those costs can be put into the rate base. The Companies did not challenge the staff recommendation.

I agree with staff that an expansion of the Companies' Tunnel and Beatty site and facilities will be necessary in order to provide the infrastructure necessary for achieving zero waste. This expansion will be needed to allow more advanced, integrated and increased processing of recyclables, compostables and trash. Furthermore, I am aware that Zero Waste Facility Siting and Zero Waste Facility Transportation studies completed by consultants for the City in 2011 concluded that expansion of the Tunnel and Beatty site into Brisbane was preferable to other site alternatives in San Francisco. I agree with staff that expansion of the Tunnel and Beatty site is the best option for a future integrated zero waste facility. As such, I recommend that the Companies engage with the City in investigating the possibility of having the City purchase the land on behalf of the ratepayers. Under such a scheme, the Companies would not bear any carrying costs for the land purchase, and the ratepayers would not be required to pay property financing or rental costs. It is possible that part of the balance in the Special Reserve Fund may be used for this purpose if all parties were able to reach agreement on the arrangement.

I accept Contingent Schedule 2 for the west wing project to test new technologies to process the entire trash stream for maximum recovery of compostable and recyclable materials in order to help San Francisco achieve its zero waste goal. The Companies must provide a copy of all necessary construction permits and an executed contract, including the agreed-upon construction costs, along with proof of first payment to the building construction contractor to DPW. The Companies are required to provide a revised calculation of the RSF tip fee, and the resulting percentage increase in RSS/RGG collection rates. DPW will review and approve the addition of the west wing facility costs, up to a maximum of $330,000 (plus operating ratio and diversion incentive), to the rate base beginning on the first day of the month following said approval.

11. Impound Account

The Impound Account is used for a number of pass-through costs on which the Companies are not allowed to make a profit. Historically, these costs include Altamont Disposal Fees (Contract Fees, Incremental Local Enforcement Agency Fee, Open Space Fees and the Annual WDR Fee), fees paid to the Waste Management Authority of Alameda County, Business Tax License fees and funding for City programs that support recycling and other programs relating to and benefiting ratepayers. The proposed funding for the Impound Account includes fixed and variable deposits. The payments for disposal fees, regulatory costs paid to Alameda County and the business tax license fees are based on tons delivered to the Altamont landfill, while the funds for City programs are fixed based on City departments' anticipated costs over the rate period. The actual expenditure of any monies in the Impound Account for City costs is subject to the City's annual budgeting process. Procedures for the Impound Account are included in Attachment D.

Two of the six per-ton disposal-related fees collected through the Impound Account increase; the other four remain identical to the prior rate period. The two that increase are the fee paid to the Waste Management Authority of Alameda County and the Open Space Fee. Both of these fees increase due to agreed-upon adjustments for inflation.

The Companies have included $17,847,164 for deposit into the Impound Account in RY14 (Exh. 1, RSF Sch. F.2). Of this amount, $3,232,765 is for the various disposal fees and business taxes, $8,893,753 is for SFE and $5,720,646 is for DPW. Monies for the Impound Account are collected from both residential and commercial customers.

11.1 Department of the Environment

For SFE, the $8,893,753 in funding is broken down as follows:

- $5,479,895 for the zero waste program; this program is designed to decrease the amount of materials going to landfill (and thereby extend the life of the existing landfill contract), consistent with the City's goal of zero waste by 2020. Zero waste projects include assistance to residential and commercial customers to comply with mandatory recycling and composting requirements, neighborhood composting campaigns, curbside auditing, materials processing, education and outreach and grants to non-profits to increase diversion.
- $2,761,493 for the toxics reduction program; the goal of this program is to develop convenient and safe recycling and disposal options for common hazardous wastes generated by businesses and residents to reduce landfill costs and contamination.
- $400,280 for the green building program, which is designed to provide policy support, program development, technical assistance and training, and monitor compliance with the City's green buildings standards.
- $252,085 for the environmental justice program, which aims to mitigate environmental disparities associated with the collection and processing of refuse in the City.

SFE provided a detailed enumeration of the projects and programs that are supported by Impound Account funding in each of these areas (Exh. 12). The amount requested for SFE from the Impound Account is based on using the last approved amount through the refuse rate process as a baseline and increasing it by the Bay Area Consumer Price Index. Funding is also included in the zero waste program for SFE to prepare for and participate in future rate proceedings.

11.2 Department of Public Works

For DPW, the $5,720,646 in funding is broken down as follows:

- $3,880,646 for existing programs to remove refuse from City streets and public properties (including mechanical street sweeping, litter patrol and block sweeping);
- $967,000 to expand the education, compliance and outreach program to combat illegal dumping;
- $840,000 to replace public litter cans; and
- $33,000 for staff costs for the future rate review process.

The $3.88 million for existing programs represents less than 19% of DPW's annual expenditures for refuse-related services (Exh. 13).

As discussed in Section 8.2.4, the Companies are assuming responsibility for collection of abandoned materials from San Francisco's streets. This service has been provided by DPW using a combination of General Fund and Impound Account revenues. In the Mayor's proposed FY14 budget, DPW proposes eliminating eight positions from the illegal dumping program, and adding five positions plus a $300,000 contract to enhance supervision of street cleaning programs. Over the last three years, DPW has maintained street cleaning service levels with the aid of volunteers, pre-apprentices through the Jobs Now program and community-based organizations, and weekend programs such as the Sheriff's Work Alternative Program (SWAP) and the P20 Pre-trial Diversion Project. Though helpful to our overall mission, these programs have stretched our capacity to supervise these employees and volunteers. The new positions and contract will make these programs much more effective in meeting DPW's goal of keeping San Francisco clean.

11.3 Combined City Departments

The total proposed funding for the City from the Impound Account amounts to 5% of the total operating costs of the collection companies (RSS/RGG). A 2011 study conducted by the San Francisco Local Agency Formation Commission determined that San Francisco ranked 10^{th} in a survey of 14 Bay Area cities in fees and services provided to the City (Exh. 42). According to the study, the proportion of City costs included in refuse rates ranged from 7% to more than 30%; the City of Oakland receives more than $23 million annually and San Jose receives more than $9 million from their service providers.

Because expenditure of amounts included for City departments in the Impound Account is subject to the City's annual budget process, which entails a public process and is subject to the approval of the Board of Supervisors and Mayor, neither the Director nor the Rate Board has final authority over the actual expenditure of these monies. Accordingly, this report concludes only that the total amounts requested by the Companies to fund the Impound Account are just and reasonable and are recommended with the above adjustments. If City department use of these funds as specified in this rate adjustment process is not approved through the regular City budget process, the decision-makers must recommend other appropriate uses of the monies consistent with this report.

The Impound Account procedures include instructions to the Companies that the amounts specified for City departments be guaranteed, such that deposits to the Impound Account will not be affected by the Companies' actual revenues or financial performance. The funding levels for City departments will be adjusted annually by the COLA mechanism until the next rate proceeding.

In reviewing RSF's most recent quarterly report on the Impound Account, staff noted that the balance as of April 30, 2013, was $301,844. Since funds are deposited monthly to cover both the fixed and variable expenses in the Impound Account, lowering the balance to $200,000 would be adequate to cover any contingencies such as uneven withdrawals or late deposits. This leaves an excess balance of $101,844. I recommend that the required funding for the Impound Account that is allocated to RSF be reduced by $33,948 (one-third of the excess balance). Over the course of the three years the new rates are anticipated to be in effect, this would reduce the beginning balance by the excess amount.

12. Special Reserve Fund

The 1988 Facilitation Agreement between the City and Sanitary Fill Company (now Recology San Francisco) established a requirement to create a reserve fund to be drawn upon from time to time to pay for "extraordinary expenses" which were not fully covered by the currently effective rates. This Special Reserve Fund was not to take the place of normal ratemaking processes, but to protect the Companies from major fluctuations in the rates for extraordinary expenditures that were not anticipated during the ratemaking process. The Facilitation Agreement requires a minimum balance of $15 million to be maintained through the term of the Agreement. The Facilitation Agreement will expire concurrent with the expiration of the Waste Disposal Agreement between the City, Recology San Francisco and the Oakland Scavenger Company (now Waste Management of Alameda County). That agreement is not anticipated to expire until January 2016, and may expire at a later date, depending on the amount of waste landfilled (Exh. 56).

The Special Reserve Fund has been funded by a 1.3% surcharge on the Companies' volumetric billings to residents and commercial customers. Recology does not apply a cost-of-living-adjustment (COLA) or make a profit on monies collected for this account. Prior rate orders established this fund and set forth procedures for maintaining and making expenditures from this fund. Deposits into the Special Reserve Fund were suspended as of October 1, 2010. As of that date, the 1.3% surcharge on billings was re-allocated to the Impound Account for the use of DPW to offset the costs of removing refuse from City streets and properties, and for programs to prevent littering and illegal dumping.

As of April 30, 2013, the account balance was $29,529,003, and is growing at a rate of about $160,000 a year due to accrued interest. There have been only a limited number of withdrawals from the Special Reserve Fund since its creation. A total of $5,517,390 has been withdrawn from the account since 1988, primarily to pay for improvements at the Altamont landfill required by new environmental regulations. The Companies have proposed discontinuing the 1.3% surcharge, consistent with prior Rate Board directions. I concur with this action.

I concur with the staff finding that San Francisco is well protected by the reserve and that a $15 million reserve would be sufficient to cover unanticipated costs, especially given previous investments in the Altamont landfill to maintain compliance with environmental regulations. As was discussed in the staff report (Exh. 65, p. 23) one possible use of Special Reserve Funds in excess of $15 million would be for the purchase of land for a zero waste facility (see further discussion in Section 10 Contingent Schedules). This use of Special Reserve Funds might require amending the Facilitation Agreement and the Special Reserve Fund Procedures, which are included in Attachment E.

13. Compliance with California Environmental Quality Act

The Environmental Planning Division of the San Francisco Planning Department has evaluated the Companies' rate application under the requirements of the California Environmental Quality Act (CEQA). The Environmental Planning Division has determined that the actions contemplated in the application are statutorily exempt under California Public Resources Code Section 21080(b)(8) and State CEQA Guidelines §15273 (Exh. 73).

As part of this report, I make the following findings:

(1) Planning has determined that the application is statutorily exempt from environmental review under California Public Resources Code Section 21080(b)(8), which provides that CEQA does not apply to the establishment, modification, structuring, restructuring or approval of certain rates, tolls, fares and charges by public agencies.

(2) The purpose of the Application is to (a) meet operating expenses, including employee wage rates and fringe benefits, (b) purchase or lease supplies, equipment, or materials, (c) meet financial reserve needs and requirements, and, (d) obtain funds for capital projects necessary to maintain service within existing service areas.

(3) The Companies have proposed and the City has approved rates needed for the Companies to "[meet] operating expenses, including employee wage rates and fringe benefits," as provided in the Application and the supporting schedules.

(4) The Companies have proposed and the City has approved rates needed for the Companies to "[purchase] or [lease] supplies, equipment, or materials," to support their refuse collection and disposal activities in the City, as provided in the Application and the supporting schedules.

(5) The Companies have proposed and the City has approved rates needed for the Companies to "meet financial reserve needs and requirements," as provided in the Application and the supporting schedules.

(6) The Companies have proposed and the City has approved rates needed for the Companies to "obtain funds for capital projects necessary to maintain service within existing service areas," as provided in the Application and the supporting schedules.

14. Future Ratemaking Procedures

In 2005, the Director instituted new procedures to improve the rate review process. The rules of procedure for the 2013 Application are consistent with the improvements instituted in 2005, with only modest revisions to provide clarity on the requirements for submission (DPW Order No. 181,252). Among other things, the procedures require the Companies to submit a notice of intent to file a rate application at least 180 days in advance of the application itself; a draft application is required at least 90 days in advance. This pre-application period allows for greater review by staff to determine the completeness of the application, and more meaningful participation by the public via workshops.

This year, the Companies are proposing a one-year rate for the rate year beginning July 1, 2013 (RY14), adjusted annually thereafter based on a cost-of-living adjustment formula. While the proposed rates are anticipated to be in effect for three years (through June 30, 2016 (RY16)), the Companies identified in their application the possible need for a rate adjustment prior to that date to reflect a possible change in the City's landfill contract. The Companies requested that "a streamlined rate setting procedure be adopted" (Exh. 1, Narrative Summary, p. 15).

I agree that streamlining the 180-day pre-application review process may be appropriate under certain conditions. If the Companies file an application specifically to account for (a) a new disposal contract to replace the Altamont agreement, and/or (b) land purchase for a zero waste facility, I will consider adopting procedures that reduce the current 180-day pre-application period to 60-90 days, depending on the number of issues and complexity of the Companies' request. Any future application would still be subject to the 150-day review period specified in the 1932 Refuse Collection and Disposal Ordinance.

Even under a streamlined pre-application review procedure, I would still require the Companies to submit an application in substantially the same format as currently required under the rules of procedure, including updated information regarding actual revenues collected under the new rate structure proposed as part of the current application. Given the changes in both the residential and apartment rate structures (including fixed charges per unit and for recycling and composting bins, and incentives for diverting more materials), the Companies acknowledge that their revenue projections may be affected by changes in service levels, and by the removal of caps on apartment customers' bills in RY15 and RY16. I would instruct staff to compare the Companies' actual revenues to the projections (as revised by my recommendations) included in the 2013 Application.

I observed that the City's review of the draft and final Applications was quite smooth and that staff and the Companies worked cooperatively and constructively together. Nevertheless, there were instances when the Companies introduced information very late in the process, which limited staff's ability to determine the accuracy of the information in formulating their recommendations. In my procedures for future rate applications, I will consider establishing deadlines for the Companies to meet if they intend to introduce additional rebuttal information that they would like the City to consider during the review of the application. Similarly, I direct staff to provide the Companies with copies of exhibits at least 24 hours in advance of their being introduced into the record. I acknowledge that the scheduling of the final hearings did not leave any of the parties with much time to prepare responses, so I will also try to space hearing sessions further apart at the end of the process.

I request that SFE continue to track the disposal of materials at the Altamont landfill and refine the estimated remaining life under the terms of the existing contract, based on actual tons. And I encourage the Companies to work with City staff to explore options for acquiring additional land for a future zero waste facility. These steps will help determine the likely timing of a future rate adjustment, and allow sufficient notice for me to issue rules for a streamlined rate setting procedure, if appropriate.

15. Additional Reporting Requirements

In accordance with prior Directors' orders, the Companies submit quarterly and annual reports to the City. These reports include information on the amount of materials landfilled and diverted, commercial recycling and composting accounts, toxics collection, revenues and expenses, the various accounts (the Special Reserve Fund, Impound Account, and Diversion Incentive Account, etc.), The City uses this information to monitor the Companies' efforts to achieve diversion and other goals established during the rate proceedings.

Given the proposed changes in the residential rate structure (and in particular the apartment rate structure), the Companies acknowledge that their revenue projections are subject to uncertainty. In response to the rate structure changes, the Companies have assumed that both commercial and apartment customers will change their services, resulting in a reduction in revenues due to migration (Exh. 1,p. 29-31). The Companies also have assumed that apartment customers will change service levels and/or service configuration to offset any additional revenues that would otherwise be generated by the removal of the 25 percent cap in RY15 and the 50 percent cap in RY16 (Exh. 1, RSS/RGG Sch. C, p. 4). The Companies estimate that if apartment customers do not adjust service levels when the caps are removed, the proposed rates would generate an additional $4.6 million in revenue annually (Exh. 54).

In order to more closely monitor the actual revenues collected by the Companies under the new rates, I direct the Companies to submit the quarterly reports within 60 days of the end of each quarter (currently 90 days), and that actual revenues and expenses be included in the quarterly reports (currently required only annually). In addition, the Companies should include information on the number of apartment customers whose monthly bills are subject to the rate cap, and an assessment of the extent to which apartment customers are modifying their service levels to offset rate increases. I acknowledge that quarterly revenue and expenditure reports will be unaudited, and that only the annual reports will be reconciled to the Companies' audited financial statements.

I direct the Companies to make specific changes to several existing tables and to submit additional tables in the quarterly and/or annual reports, as detailed below. To get a better periodic status of commercial accounts, the Companies should replace the existing Table 4 in the quarterly reports with the following table:

Table 4
Commercial Accounts

Recology Sunset Scavenger & Recology Golden Gate, Combined	Number of Accounts	Percent of Total
Total Accounts		100%
Trash Compliant		
Recycling Compliant		
Composting Compliant		

The Companies should change the existing Table 5 in the quarterly report to include additional information that will help the City complete its required reports to the state on toxics collection efforts, as follows:

Table 5a
Toxics Collection and Participation
(Rate Year Cumulative)

Program	*Collection Weight*	*Service Standard*	
	Lbs. Handled	Number	Unit
HHW Facility Drop-off			customers served
HHW Home Collection			addresses served
HHW Home Collection	***not tracked***		equivalent loads
Very Small Quantity Generator			businesses served
Residential Curbside Battery Collection		***not tracked***	
Apartment Building Battery Collection			pick-ups
Retail Collection Partners			pick-ups
Gigantic 3 Collection Events			customers served
Waste Acceptance Control Program		***not tracked***	
Bulky Item Recycling - E-Waste			addresses served
Bulky Item Recycling - Non E-Waste			addresses served
Public Drop-Off - E-Waste		***not tracked***	

Finally, the Companies should submit a new table to allow the City to track the Companies' progress toward meeting the toxics incentive collection targets. This table should also be included in the quarterly report:

Table 5b
Toxics Collection Incentives

Toxics Item	**Target (tons)**	**Actual (tons)**
Latex Paint		
Oil-Based Paint		
Paint Distributed for Direct Reuse		
Total Paint		
Household Batteries - Single Use		
Household Batteries - Rechargeable		
Total Household Batteries		
Fluorescent & Other Mercury-Containing Lamps		

While the quarterly and annual reports are intended primarily to assist City staff in monitoring the Companies' performance relative to various goals established as part of the rate proceedings, I recognize that these reports also may be of interest to the public. To facilitate greater public review, I am directing staff from DPW to ensure that the reports are posted electronically, and that their availability is easily accessible on DPW's website.

16. Response to Public Comments

I have listened to the public comment given at each of the six hearings, read the letters sent to me by ratepayers, and reviewed the comments presented on behalf of members of the public by the Ratepayer Advocate (Exhs. 64 and 97). I also have reviewed the responses provided by City staff to 45 individual topics that were raised prior to issuance of the staff report. I believe staff addressed the specific issues posed by the public, and factored many of the comments and concerns into their recommendations to me. In this section, I would like to address what I perceive to be the broader public concerns with the Companies' Application.

Many ratepayers offered their opinion that the requested rate increase is simply too high, especially in these hard economic times and during a period of relatively low inflation. They suggest that "just and reasonable" should have some numeric upper bound. It is the purpose of these proceedings to examine all of the evidence on the record, and to set rates based on the evidence. I believe the costs submitted by the Companies, as adjusted by myself or staff, accurately reflect the cost of providing refuse collection and disposal services to San Francisco ratepayers. As I noted elsewhere in this report, the declining volume of trash (black bin) has eroded the Companies' revenues; as a result, a significant portion of the rate increase is due to revenue shortfalls as much as, or even more than, increasing costs. I agree that any increase in expenses for low-income families and those living on a fixed income is challenging. Therefore I request that the Companies actively publicize the availability of the low-income discount that can help offset the impact of the rate increase for eligible customers. Finally, I would note that individual ratepayers have a great deal of control over the rates they pay through changing the configuration of their service; by adopting a smaller trash bin many ratepayers have the ability to actually reduce their refuse bills.

Ratepayers questioned the Companies "monopoly" on refuse collection in San Francisco, and the Companies' ability simply to pass through cost increases to ratepayers. Refuse collection in San Francisco is governed by the 1932 Ordinance, which specifies an open permit process for collection of refuse and a rate review process to determine that proposed rates are just and reasonable. While the Companies hold those permits, these proceedings are intended to ensure that the Companies' expenditures are necessary and appropriate to providing the refuse collection and processing services needed to keep San Francisco clean and meet its zero waste goals. I believe staff has carefully scrutinized the Application and that the recommended adjustments are appropriate and provide a solid basis for setting rates that meet the just and reasonable standard. I also would note that the cost-of-living adjustment mechanism does not simply allow the Companies to pass through cost increases, but is tied to available indices and imposes limits on the annual adjustments. Having an adjustment mechanism saves ratepayers the considerable expense of a full rate-review process.

Ratepayers questioned the changes in residential and apartment rate structures, and in particular the introduction of fixed charges and diversion credits. In noting his support for the structural changes, the Ratepayer Advocate suggested that the City provide the public with a better understanding of future structural changes in refuse rates. I agree that the nominal charges per unit and per bin that are included in my recommended order are a first step in moving toward a more sustainable rate schedule, and are consistent with rate structures employed by other utilities (including water and sewer, gas and electric, telecommunications services, etc.). As we move toward zero waste and the volume of material going to landfill continues to decline, the overall cost of landfill disposal will continue to decline relative to the cost of processing. As such, the revenues collected through fixed charges and charges associated with recycling and composting will have to continue to rise at a relatively higher rate than the revenues collected through charges for trash. The key is to implement these changes gradually so as not to discourage recycling and composting. I believe the rates I am recommending achieve this goal.

Members of the public expressed considerable anger and frustration about unabated pilfering from recycling bins, and the loss of recovered materials revenue that could help mitigate the rate increase. I understand and share the public's frustration with poaching from residential recycling bins. It is a nuisance, and although small in proportion to overall recycling revenues and expenses, such theft does have an impact on the rates paid for refuse service. Therefore, I will continue to advocate with the police department, district attorney, courts and others to enforce anti-poaching and related laws, particularly against people in vehicles and against the newer development of mobile buybacks.

In addition to enforcing anti-poaching laws, ratepayers suggested deterrent measures, such as tamper-resistant bins or anti-theft stickers. Staff has looked extensively at bin designs and concluded that none are theft-proof and designs in this direction are cost prohibitive, can lead to more expensive bin damage or even theft of the bin itself, and collection costs that outweigh recouped revenue. Similarly, stickers, and even language molded into bins, have been tried in the past with little deterrent effect. Nevertheless, I request that the Companies research and submit to me any proposals that they believe would be both successful, and cost-effective, in combating poaching.

I would like to set the record straight on the perception that if recycling theft were stopped, there would be no need for a rate increase, and on the estimated value of recycling revenue lost to thefts from blue bins. According to the Companies' Application, the sale of recyclable materials offsets about eight percent of the collection and disposal costs. Revenue loss to poaching, while difficult to measure, is a small fraction of that amount. I agree with staff that even if we could solve the problem, and ignoring corresponding increased costs, it would reduce rates by a very small amount.

Members of the public questioned why the Application does not break down costs by program (e.g., residential recycling) or revenues by source (e.g., composting revenue) and tip fees by stream (e.g., trash). As noted in the staff report, the Companies' programs are intentionally integrated for efficiencies and typically share collection and processing infrastructure, labor, and other services. While the Companies could derive program or waste-stream specific cost estimates, those estimates would rely on numerous assumptions and allocation formulas that would be rough approximations, at best. I do not believe the information derived from such an accounting exercise would improve the City's review of the Application or aid in determining whether the resulting rates are just and reasonable. At the same time, I agree with the Ratepayer Advocate's observation that the Companies could do more to illustrate the basic building blocks of the refuse rates by waste stream (i.e., trash, recyclables, compostables) – that is, collection, processing, and final disposition (including revenues from commodity sales) – such that it is clear what is required to handle the City's refuse. I direct City staff to work with the Companies in developing a high-level overview of the refuse collection and processing operations, and may request such information be included in a future rate application.

Members of the public have requested greater enumeration of the services provided by the City departments (SFE and DPW) that are included in the rate base. I have done so in Section 11 of this report. In addition, each department has submitted more detailed descriptions of their services in supporting documents (Exhs. 12 and 13). At the public's urging, I have included language in the Impound Account procedures that the amounts specified for City departments be guaranteed, such that deposits to the Impound Account will not be affected by the Companies' actual revenues or financial performance.

Some ratepayers have suggested that the DPW solid waste management services should not be included in the rate base at all, and that they should be fully paid for by the City's General Fund. An argument has also been made that the services paid for through the Impound Account should be capped at current levels. I believe that these are policy issues that are best settled by the Mayor and Board of Supervisors through the annual budget process. From a ratemaking perspective, I believe that the 2012 Hearing

Officer's report (Exh. 14) addressed the question of whether it was appropriate to include DPW solid waste management services in the rate base. The Rate Board affirmed that recommendation. The amount included in the current rate application for ongoing activities represents approximately 19% of DPW's annual expenditures for refuse-related services (Exh. 13).

Members of the public, as well as the Ratepayer Advocate, have suggested that the City require more frequent and detailed reporting from the Companies on various aspects of their operations. The reporting requirements spelled out in this report and in prior Directors' reports, which require quarterly and annual submissions, are designed to facilitate the City's monitoring of the Companies' efforts to achieve diversion and performance goals established during the rate proceedings. The reports also allow the City and the public to monitor the costs and revenues of the Companies to ensure that the Companies are not earning unreasonable profits. I believe the reports specified by staff are sufficient to support this role. Elsewhere in this report I have directed staff to make these reports more readily available to the public.

I appreciate the interest members of the public have taken in the Application, and their participation in the hearings. I find, however, that some of the issues that have been raised are beyond the scope of the rate proceedings, as defined by the 1932 Ordinance. Many of the questions and concerns relate to the City's solid waste management program goals and objectives. While those decisions may have a bearing on the program and operating costs included in the Application, policy issues are considered far in advance of the rate process and are more appropriately addressed by the responsible City departments. To facilitate greater public input earlier in the decision-making process, I encourage DPW and SFE to explore other forums to accommodate the public's legitimate interest in decisions about the design and execution of the City's zero waste programs and solid waste management system, including the collection and processing operations of the Companies.

Finally, I received a number of compliments on the performance of the Ratepayer Advocate, and want to acknowledge the value of the services provided by this position. The primary function of the Ratepayer Advocate is to perform outreach to the public, and to provide information to help the public understand the Application and participate in these proceedings. I believe that the Ratepayer Advocate has been effective in representing the public's concerns, and has brought an independent perspective to the review of this Application. I recommend that a Ratepayer Advocate be retained in future rate proceedings, and request that the Ratepayer Advocate provide suggestions for how to improve this function going forward.

ATTACHMENT A

LIST OF HEARING EXHIBITS

4/12/2013

1.	Final Rate Application	Recology
2.	Post-Filing Changes	Recology
3.	Narrative Summary	Recology
4.	Schedule B-1	Recology
5.	Components of Rate Increase	Recology
6.	Revenues: Projections & Actuals	Recology
7.	Residential Customer: Downsize	Recology
8.	Residential Customer: Downsize Upsize	Recology
9.	Residential Customer (1-5 Units)	Recology
10.	Apartment Customer (once a week service)	Recology
11.	Apartment Customer (reduce frequency of service)	Recology
12.	Impound Account Projects	City
13.	DPW Memorandum on DPW Funding Included in Recology 2013 Refuse Rate Application	City
14.	2012 Hearing Officer's Report	City
15.	HDR Report, "Municipal Refuse Collection Rates Comparative Analysis" 4/20/12	City
16.	Public Workshop: Allocation of Refuse Rate Surcharge	City
17.	Bulky Item Collection Requests	City
18.	Ratepayer Advocate Overview	Advocate
19.	Ratepayer Advocate Comments 4/2/13	Advocate
20.	Summary of March 21st Workshop	Advocate
21.	Follow-Up to March 21st Workshop	Advocate

22.	Summary of Application	Advocate
23.	Initial Comments on Rate Application	Advocate
24.	Follow-Up to January 17th Workshop	Advocate
25.	January 17th Workshop Summary	Advocate
26.	Map re: Contingent Schedule 1	Recology
27.	Methodology for Calculation of Carrying Costs for Plant Held for Future Use	Recology
28.	Letter, dated 4/11/2013, re: Contingent Schedule 1	Recology

<u>4/15/2013</u>

29.	E-mail from J. Glaub to R. Haley, dated 2/4/2013, "West Wing Conceptual Design Package"	Recology
30.	E-mail from J. Glaub to J. Macy, dated 2/7/2013, "West Wing Cost Estimate"	Recology
31.	Brisbane City Council Resolution No. 2011-35	Recology
32.	Brisbane City Council Resolution No. 2012-36	Recology
33.	COLA Mechanism Report (Armanino)	Recology
34.	Fixed vs. Variable Cost Analysis (Armanino)	Recology
35.	Rate Survey – 1/31/2013 (Armanino)	Recology
36.	Schedule G-3: Health Insurance and Postretirement Expenses	Recology
37.	2012-16 Collective Bargaining Agreement between Recology and Sanitary Truck Drivers Drivers and Helpers Union Local 350, IBT	Recology
38.	Letter from Towers Watson to A. Tabak, dated 3/25/2013, "Pension Plan Funding Projection"	Recology
39.	Less Than Weekly Service (to be known as Pay per Setout) Proposal Summary	Recology

40.	Written Protest Against Proposed Rate Change, dated 8/2/2010; Notice of Rate Decision, dated 10/8/2010; Written Objections to Hearing Officer's Report, dated 8/31/2010; Prepared Remarks to Rate Board, dated 9/30/2010; DPW Order No. 178,941; Letter to Hearing Officer, dated 4/23/2012; Letter to City Administrator, dated 5/25/2012; 2012 Rate Board Order; DPW Order No. 180,442	D. Pilpel

<u>4/22/2013</u>

41.	Abandoned Materials Collection	Recology
42.	2011 R3 Report to SF LAFCo re: Selection of Refuse Collection, Hauling and Disposal Providers	City
43.	Organics Infrastructure and Operations	Recology
44.	SF Feedstock -- Photographs	Recology
45.	Food Scraps Capacity in the Bay Area 2013 Benchmark Data	Recology
46.	Recology Allocation and Trends (Workers Compensation)	Recology
47.	E-mail, dated 4/19/2013, from M. Harrington to A. Tabak (Liability Insurance)	Recology
48.	Recology Revenue Trends	Recology
49.	Revenue and Waste Generation vs. Economic Indicators	Recology
50.	Zero Waste Incentives – Tonnage Schedule	Recology
51.	Calculation of Small Company Size Adjustment (WACC)	Recology
52.	Apartment and Commercial Migration to Date	Recology
53.	Reconciliation of Rate Application (Revised vs. Original)	Recology

4/24/2013

54.	Apartment Revenue Analysis: Impacts of Apartment Cap	Recology
55.	Commission on the Environment Guidelines for the Use of Impound Account Funds	City
56.	Tons Sent to Altamont	City
57.	Recology Organics Group Customers, Material Types and Rates	Recology
58.	City of Berkeley/Recology Grover Environmental Products Contract (2010)	City
59.	City of Berkeley/Recology Grover Environmental Products Amendment (2012)	City
60.	SBWMA/Recology Grover Environmental Products Contract (2011)	City
61.	Recology The Compost Store	City
62.	"That's WACC!" entries for Waste Management, Republic Services, and Waste Connections	City
63.	"Monetizing the Trash" $3 per mattress	R. Davis
64.	Public Comment Received by the Ratepayer Advocate	Advocate

5/20/2013

65.	Staff Report on the 2013 Refuse Rate Application	City
66.	Operating Ratio Study (HDR Engineering)	City
67.	E-mail, dated 2/6/2013, from K. Fuchs to M. Allersma (CPC Development Pipeline)	City
68.	Detail of Apartment Rate Cap	City
69.	Transition Reinsurance Fee (Towers Watson)	City
70.	Independent Auditor's Report on Applying Agreed-Upon Procedures	City
71.	PG&E Gas Schedule G-NGV1	City

72.	COLA Rate Weight Calculations for Combined Companies	City
73.	CEQA Determination	City
74.	Independent Auditor's Reports on Applying Agreed-Upon Procedures Related to the Department of the Environment Impound Account (2008, 2009)	City
75.	Summary of Department of Public Works Staff Report on the 2013 Refuse Rate Application	Advocate
76.	City vs. Recology Salary and Benefits Information	City
77.	Recology Organics Group—Customers with the Largest Percentages of Food Waste	Recology
78.	Hay Road Landfill Rates (Schedule J.3 of 2006 Recology Refuse Rate Application)	Recology
79.	Residential Development Pipeline—December 2012	Recology
80.	Apartment Revenue Analysis—Impacts of Apartment Cap	Recology
81.	Impact of Increased Apartment Units	Recology
82.	Management Fee	Recology
5/22/2103		
83.	Abandoned Materials Program—Goals and Penalties	Recology
84.	On-Site CNG Fuel Cost	Recology
85.	PG&E Natural Gas Vehicle Rates	Recology
86.	E-mail, dated 5/21/2013, from S. Wine to J. Mendoza (Power Costs for CNG Stations)	Recology
87.	CNG Compressor Specifications	Recology
88.	CNG Compressor Electrical Cost	Recology
89.	Recology Electricity Costs	Recology
90.	Revised Schedule L-3 (Fuel Expenses)	Recology
91.	Impracticality of Maintaining Golden Gate CNG Vehicles at Sunset Shop	Recology

92.	CNG Vehicles Requiring Maintenance	Recology
93.	Summary of Facility Safety Modifications Required to Maintain CNG Vehicles	Recology
94.	Natural Gas Vehicle Facility Modification Code Overview for Maintenance Garages	Recology
95.	Guideline for Determining the Modifications Required for Adding Compressed Natural Gas and Liquefied Natural Gas Vehicles to Existing Maintenance Facilities	Recology
96.	Residential Development Pipeline–December 2012	City
97.	Update of Public Comment Received by Ratepayer Advocate	Advocate
98.	2013 Refuse Hearing Notifications	City
99.	Excerpt from Exh. 35 (Armanino Rate Survey), with Annotations (Table 1—32g Residential Rates)	N. Wuerfel
100.	Letter, dated May 14, 2013, from K. Kubitz to Hearing Officer; Recalculation of Customer Numbers from Recology Rate Application Schedule F-1	K. Kubitz

ATTACHMENT B

RECOMMENDED ORDERS AND RATE SCHEDULE

CITY AND COUNTY OF SAN FRANCISCO
DEPARTMENT OF PUBLIC WORKS

DPW ORDER NO. 181,363

Whereas, on March 14, 2013, Recology San Francisco applied for an increase in the maximum rate to be charged for the disposal of refuse collected by licensed refuse collectors in the City and County of San Francisco; and

Whereas, the Director of Public Works has investigated this application and has reported in his Report dated June 7, 2013, that an increase of 4.51% has been justified; and

Whereas, the Director of Public Works has found in his Report that it is reasonable to increase these base rates each year by a cost-of-living adjustment (COLA) and the Director will issue rate schedules for subsequent rate years after applying the COLA factor as appropriate; now therefore,

Be it ordered, that the maximum rate per ton for the disposal of refuse to be charged any person, firm, or corporation authorized by the Board of Supervisors to dispose of refuse, shall be $147.11, effective August 1, 2013; and

Be it ordered, that the maximum rate per ton for the disposal of refuse may be adjusted by a COLA mechanism in subsequent rate years as set forth in said Report; and

Be it ordered, that the procedures governing the use of funds from the Impound Account and the Special Reserve Fund, as set forth in said Report, are in effect.

Mohammed Nuru
Director of Public Works

APPROVED: June 7, 2013

CITY AND COUNTY OF SAN FRANCISCO
DEPARTMENT OF PUBLIC WORKS

DPW ORDER NO. 181,364

Whereas, on March 14, 2013, Recology Sunset Scavenger and Recology Golden Gate applied for increases in the rates to be charged for refuse collection service rendered to residential and apartment buildings; and

Whereas, the Director of Public Works has investigated this application and has reported in his Report dated June 7, 2013, that an average increase of 19.91% in rates to be charged for refuse collection from residential and apartment buildings is justified at this time; and

Whereas, the Director of Public Works has found in his Report that it is reasonable to increase these base rates each year by a cost-of-living adjustment (COLA) and the Director will issue rate schedules for subsequent rate years after applying the COLA factor as appropriate; now therefore,

Be it ordered that the following schedule of refuse collection rates shall be charged, effective August 1, 2013, by Recology Sunset Scavenger and Recology Golden Gate in the City and County of San Francisco, and that the procedures governing the rates as put forth in the said Report are in effect:

Description of Monthly Charge	**Charge**
Rates for 1-5 Unit Residential Buildings	
Base Charge for Service	
Per dwelling unit	$5.00
Trash Volume Charge for Weekly Collection	
20-gallon bin	$15.68
32-gallon bin	$25.08
Recycling Volume Charge for Weekly Collection	
32-gallon bin	$2.00
Composting Volume Charge for Weekly Collection	
32-gallon bin	$2.00

Low Income Discounts	
Households with income less than or equal to 150% of the poverty level may qualify for 25% base and volume discounts.	
Distance, Elevation and Key Charges	
No extra charge for collection less than 25 feet from curb. Distance charge per bin for collection from each 25 foot increment thereafter.	$9.08
No extra charge for collection less than 4 feet elevation change from street level. Elevation charge per bin for collection from each 8 foot increment thereafter.	$9.85
Weekly key use.	$13.25
Distance, elevation and key charges are waived for customers with a permanent disability that pay for individual service and certify they are physically unable to place bins at the curb and no able-bodied persons live in their residence. Customer must place bins in a location as accessible as possible for collection.	
Rates for 6 Unit and Larger Apartment Buildings	
Base Charge for Service	
Per dwelling unit	$5.00
Volume Charges for Weekly Collection	
Collection volume is charged equally for trash, recycling and composting. A landfill diversion discount equal to the diversion volume percentage less 10% is then subtracted, up to a maximum discount of 75%. Diversion volume percentage equals recycling and composting volume divided by total volume.	
32-gallon bin	$25.08
1-cubic yard bin	$158.29
Distance, Elevation, Key and Special Service Charges	
No extra charge for collection less than 100 feet from curb. Distance charge is 25% times volume charge (before diversion discount) for weekly collection from any additional distance. Distance is from curb to farthest bin.	
No extra charge for collection less than 4 feet elevation change from street level. Elevation charge is 25% times volume charge (before diversion discount) for weekly collection from elevation changes within each 8 foot increment thereafter. Elevation is from street level to farthest bin.	
Weekly key use.	$13.25
An extra charge of 50% times volume charge (before diversion discount) applies for each trap door (collector must lift a cover and pull bins up to street level), clearing of a disposal chute, rake-out (disposal chute without a bin) or bin located on a ledge one foot or more above floor.	

Additional Provisions and Requirements for all Customers

Residential and apartment rates apply to single and multi-family homes, flats, apartments, condominiums, tenancies in common, in-law units, lofts, live/work spaces (unless clearly commercial), single room occupancy hotels (with an apartment license) and low income housing. Buildings with more than 600 rooms (not counting kitchens and bathrooms) or with bins 3 yards or larger or compactor service, mixed-use buildings without dedicated residential bins and all other buildings are charged commercial rates. Customer must provide accurate unit and room counts, subject to verification by Recology.

City law mandates everyone must have adequate refuse service, pay for service on time and properly separate recyclables, compostables and trash. Minimum trash service is 20 gallons weekly for single-family and 16 gallons weekly per unit for multi-family buildings. Minimum service is 16 gallons weekly per unit for recycling and 4 gallons weekly for composting, unless there are no recyclables or compostables in the trash. Bins may be shared by dwelling units within one building if refuse service minimums are met. Apartment rates are for shared bins only.

Recycling, composting and trash bins should be at the same location. Bins shall be unobstructed and placed for easy access so they can be used and serviced in a normal and safe manner, as determined by Recology.

Refuse is to be in standard bins. Standard bin volume charges are linear. Loose material, overflow (lid must be closed), overweight (more than 2 pounds per gallon) or non-standard bins may be charged the next highest standard bin rate. Cardboard must be put in a bin, cardboard box or paper bags not exceeding 2 feet in any dimension, or else it may be charged $5 per setout.

Additional frequency charges are linear (weekly service charges are multiplied by the number of collections per week). 20-gallon bins are not serviced more frequently than once per week.

Saturday service is 75% more than the applicable rate (including volume, distance, elevation, key and special service charges) for weekday service. For Saturday collection, at least 3 day per week service is required.

Sunday service is 175% more than the applicable rate (including volume, distance, elevation, key and special service charges) for weekday service. For Sunday collection, daily service is required.

Street level and curb is where vehicle must park to service customer's bins. Distance is measured from vehicle along service path to bins. Elevation is determined by adding all distances up and down along service path.

Volume, distance, elevation, key and other charges are per location. Charges may be split among customers at the same location at 150% of the otherwise applicable rate. If two or more customers split service charges, they will be applied to each billpayer equally or as designated by the customers, subject to approval by Recology.

A key charge is applied each time weekly a key (including a key pad, combination lock, electronic door opener or other such entry mechanism) is required to enter or leave/secure premises, or unlock or relock containers (including having to get out of vehicle again even if no key is required, such as relocking frontload bins). A key charge will not be applied for relocking rearload or sideload bins.

Contaminated recycling and composting bins may be charged as trash. Trash with excessive recyclables or compostables may be charged a 50% processing fee.

Recology performs service audits from time to time and will adjust the service levels to reflect actual service being provided. It is the customer's responsibility to monitor all services and charges and notify Recology of any errors. Service adjustments or credits will not exceed 30 days or one billing cycle, whichever is greater, from the time of notification by the customer.

Recology is responsible for normal wear of bins provided to customers. Customers are responsible for damaged bins beyond normal wear, reporting missing bins and excessive missing bins. Bin cleaning service is available with additional charges.

$20 will be charged to open a service account. Closing an account is only allowed for residency changes. Credit will be given for suspension of service (e.g., vacations) for more than two weeks. Customers must notify Recology of the suspension and restart dates before start of suspension. Base charges are not credited and an administrative fee of $10 is charged to restart service after suspension.

E-bill customers will be credited $1 for each bill received and paid electronically.

$25 will be charged for each check returned for insufficient funds.

Mohammed Nuru
Director of Public Works

APPROVED: June 7, 2013

ATTACHMENT C

TABLE OF DIRECTOR'S CHANGES TO 2013 REFUSE RATE APPLICATION

RECOLOGY SAN FRANCISCO

Schedule	Proposed Change
E	Reduce "City Can Allocation" tonnage by 1,643 tons
E	Increase tonnage for 3,597 new apartment units by 4,167.45 tons
F.2	Reduce contribution to Impound Account by $33,948
G.1	Reduce Recycle Central Regular Payroll - FTE Union -Sorter/Material Handler from 67.5 to 65.5
G.2	Reduce RSF Local 3 pension expense from $10.35 to $10.11
G.3	Reduce reinsurance fees from $110 to $63
H.2	Increase lease term for stationary equipment from 7 to 10 years
J.1	Reduce compostables processing rate from $48.64/ton to $47.60/ton
L.2	Remove incorrect license and permit expense of $12,000 in RY12
L.2	Disallow operating ratio on Brisbane license fee
M.2	Reduce inflation factor on corporate services expenses from 3.4% to 3.2%
M.2	Exclude certain corporate expenses from allocation to SF companies: reduce RSF allocation by $6,981

RECOLOGY SUNSET SCAVENGER/RECOLOGY GOLDEN GATE

Schedule	Proposed Change
B.3	Reduce apartment migration to 1.4%
D, F.1	Remove one route for pay per setout test: reduce expenses by $174,192, and reduce revenue offset by $139,661
F.1	Increase apartment revenue by $642,440 for 3,597 new apartment units
G.1	Reduce G&A Regular Payroll - FTE Union - Clerical from 24 to 23
G.1	Reduce T&G Regular Payroll - FTE Union - Shop from 51.3 to 50.3
G.3	Reduce reinsurance fees from $110 to $63
H.2	Add CNG compressor lease cost of $132,000
J	Increase Fantastic 3 tonnage by 1,643 (equals "City Can Allocation" adjustment at RSF)
J	Increase trash tonnage for 3,597 new apartment units by 2,582.18 tons
K	Increase recyclables and compostables tonnage for 3,597 new apartment units by 882.52 and 702.75 tons, respectively
L.3	Reduce CNG fuel expense to $554,353
M.2	Reduce inflation factor on corporate services expenses from 3.4% to 3.2%
M.2	Exclude certain corporate expenses from allocation to SF companies: reduce RSS/RGG allocation by $32,348

Recology San Francisco
Rate Application, Schedule **B**
Rate Calculations - Processing and Disposal

DPW Revisions
Director's
Report

		RY 2014
Operating Ratio Expenses	$	97,756,794
Calculated Operating Ratio Expenses		**97,756,794**
Allowed Operating Ratio		*91.00%*
Operating Expense with Operating Ratio	**$**	**107,425,049**
Existing Capital Charge		**-**
Non-Operating Ratio Expense		
Impound Account	$	3,223,654
Altamont Disposal		4,394,508
Brisbane License Fee		2,100,000
Revenue		
Other Commercial Revenues		(988,704)
Recycling Revenues		(20,836,599)
Diversion Incentive		2,414,046
Net Revenue Requirement	**$**	**97,731,954**
Percent Increase		***4.51%***
Current Tipping Fee per Ton	$	140.76
Proposed Tipping Fee per Ton	$	147.11
Total Revenue Tons		664,332
Operating Expenses with 89% OR	$	109,839,095
Variance to 91% OR		2,414,046
Net Revenue Requirement @ 89% OR	**$**	**97,731,954**

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

DPW Revisions Director's Report

	RY 2014
Operating Ratio Expenses	$ 151,361,525
Calculated Operating Ratio Expenses	**151,361,525**
Allowed Operating Ratio	91.00%
Operating Expense with Operating Ratio	**166,331,346**
Non-Operating Ratio Expense	
Disposal Cost	39,204,408
Processing Cost	51,542,341
Impound Account	14,614,399
Revenue	
Non Rate Revenue	(18,548,561)
Apartment - Migration	730,021
Commercial - Migration	2,142,421
Paperless Bill Credit	180,400
Compactor Rate Adjustment	1,725,036
Residential - Change in 20-gal Volumetric Charge	1,257,219
Diversion Incentive (2% OR)	3,737,783
Net Revenue Requirement	**262,916,813**
Revenue @ Current Rates	219,252,943
Difference	**43,663,871**
Overall Revenue Increase	**19.91%**
Operating Expenses with 89% OR	170,069,129
Variance to 91% OR	3,737,783
Net Revenue Requirement @ 89% OR	**262,916,813**

ATTACHMENT D

IMPOUND ACCOUNT PROCEDURES

The funds from the Impound Account will be utilized for certain “pass-through” obligations including costs required by law or contract and funding for City programs as described in the 2013 Director’s Report. The Companies are required to make deposits to the Impound Account for the rate year beginning July 1, 2013, in the amounts specified in the Director’s Report.

The Impound Account will be held with a separate bank account earning the highest available market rate interest.

The uses are as follows:

Payee	Purpose
City & County of San Francisco	Department of Environment and Department of Public Works costs, as approved by City budget
Alameda County	Disposal, regulatory and mitigation fees and business tax license
Waste Management of Alameda County	Disposal fees

The use of funds from the Account shall be subject to the following conditions:

a) The purpose of expenditures shall be limited to the above listed obligations and shall not be enlarged to cover any unrelated purposes.

b) The unexpended balance of the funds shall be invested for the benefit of the ratepayers, and all investment earnings shall be deposited to the Impound Account in addition to the amount specified in (d) of these procedures.

c) The Impound Account will be continued as a separate bank account under the combined control of Recology San Francisco and the City Administrator of the City and County of San Francisco.

d) Recology San Francisco will have the responsibility of depositing revenues monthly upon receipt from collection companies in the amounts specified in the Director's Report.

e) For reimbursement of City costs, the bank will draw monthly from the Impound Account checks in favor of the City in care of the City Administrator.

f) Disbursements from the Impound Account will require the signatures of two parties – the President of Recology San Francisco, or his or her designee, and the City Administrator, or his or her designee.

g) Recology San Francisco shall report quarterly on deposits and expenditures from the account and shall submit an annual audited report.

ATTACHMENT E

SPECIAL RESERVE FUND PROCEDURES

Under the terms of the Facilitation Agreement, a Special Reserve Fund was created effective November 1, 1988, into which was deposited the proceeds from a 1.3% surcharge on current refuse collection volumetric billings, including commercial accounts, for all service starting November 1, 1988. Deposits into the Special Reserve Fund from the 1.3% surcharge ceased on October 1, 2010. The Fund may be drawn upon from time to time by Recology San Francisco, subject to the below listed controls, for extraordinary expenses resulting from the undertakings of and indemnities by the Sanitary Fill Company (now Recology San Francisco) under the Waste Disposal Agreement; and subject to the limitations contained in the Facilitation Agreement, the costs of control and alternative disposal of Hazardous Waste and Designated Wastes (as those terms are defined in the Waste Disposal Agreement) which, in addition to all otherwise recoverable costs, for any reason are not fully reimbursed as incurred in the revenues from the then current effective rates. Withdrawals from the Fund will not take the place of normal ratemaking processes by which rates are adjusted to recover costs as they are incurred but rather to assure that rates are not subject to major fluctuations from time to time and to protect Recology San Francisco against unusual circumstances in which rates cannot be reasonably adjusted to provide adequate revenues to recover increased costs under the Waste Disposal Agreement as they occur. The Special Reserve Fund shall be subject to the following Conditions:

a) The use of monies from the Special Reserve Fund shall be limited to the above listed purposes.

b) The obligation and expenditure of funds shall be conditioned upon the prior written approval of the City Administrator, or his or her designee.

c) The Special Reserve Fund will be established with a separate bank account earning the highest available market rate interest under the combined control of Recology San Francisco and the City Administrator. Disbursements from the Fund will require the signatures of two parties - the President of Recology San Francisco, or his or her designee, and the City Administrator, or his or her designee.

d) All interest earnings on any balances in the Special Reserve Fund will accrue to the Fund. Investments of funds shall be approved by the City Administrator or his or her designee.

e) To the extent that rates are increased as the result of a happening or occurrence that causes a withdrawal from the Fund, then the monies derived from this increase shall be used to replenish the Fund.

f) If, not later than five years after the expiration of the Waste Disposal Agreement, the Rate Board determines there is no need for the Fund, the remaining monies in the Fund shall accrue to the benefit of the residential ratepayers and the commercial accounts of the collection companies.

g) Recology San Francisco shall report quarterly on deposits and expenditures from the Fund. Annually, the company shall submit a report from their auditors.