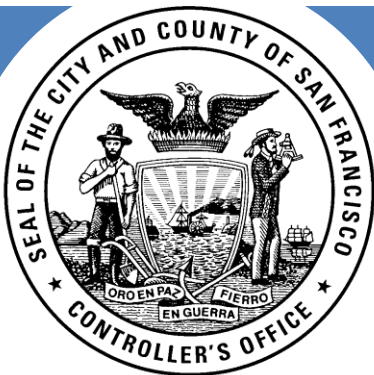


# Refuse Rates: Sanitation and Streets Commission



**CITY & COUNTY OF SAN FRANCISCO**

Office of the Controller, Office of the Refuse Rates Administrator

March 20, 2023

## I. Background

- Purpose
- Proposition F

## II. Rate-Setting Process

- Background
- Rate-Setting Process Overview and Roles
- Components of Refuse Rates

## III. City Program Proposal Overview: Department of Public Works

## IV. Rate Change Proposal: Recology

- In June 2022, voters passed initiative ordinance Proposition F, which made the Controller the Refuse Rate Administrator, and requires the Refuse Rate Administrator to present to the Sanitation and Streets Commission and the Commission on the Environment.
- The purpose of the commission hearings is to provide greater transparency around programs and services conducted by the City that are funded through the rates, as well as programs and services beyond standard refuse collection that are conducted by Recology and funded through the rates.
- Lastly, the Commission hearings are intended to provide opportunity for Commissioners and members of the public to comment on the Refuse Rate Administrator's Proposed Rate Order.
- The Refuse Rate Administrator will present twice to each Commission.
  - Meeting 1: Provide context and background on the rate-setting process, allow respective Departments to present their program proposals funded through the rate, and allow Recology to share their Rate Change Request.
  - Meeting 2: Refuse Rate Administrator will present on the Proposed Rate Order, which will be reviewed by the Refuse Rate Board.

## Proposition F

Proposition F established four principles with the purpose of creating a more fair, transparent, and accountable rate-setting process, while helping the City continue to pursue its Zero-Waste goals.

**Refuse service shall be cost-effective and meet established service standards and environmental goals**

**Refuse rates structure shall encourage rate stability and ensure rates are reasonable and fair**

**The process used to establish and monitor rates shall be transparent, accountable, and publicly accessible**

**The work of the Refuse Rate Board and the City Controller, who shall act as Refuse Rate Administrator, shall be conducted in line with high professional ethical standards**

# Rate-Setting Process: Background

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There were five major changes made to the refuse-rate setting process through the initiative ordinance. Proposition F:

- Makes the Controller the Refuse Rate Administrator
- Removes the Controller from Refuse Rate Board and replaces the Controller with a Ratepayer Representative who will be recommended by The Utility Reform Network (TURN) and appointed by the Mayor.
- Restructures the refuse rate-setting process to replace hearings before the Department of Public Works (Director's Hearings) with a requirement that the Controller, as Refuse Rate Administrator, regularly monitor the rates and appear before the Refuse Rate Board to recommend rate adjustments. In addition, the RRA
- Authorizes the Refuse Rate Board to set commercial rates
- Authorizes the Board of Supervisors on recommendation of the Refuse Rate Administrator, Refuse Rate Board, and Mayor to amend the Refuse Ordinance by supermajority vote

## Settlement Agreements

In addition to Proposition F, the Rate Order process is governed by two settlement agreements between the City and Recology.

### March 2021 Settlement

Recology agreed to pay \$101 million in restitution, interest, and penalties to ratepayers affected by erroneous calculations in the 2017 Rate Application.

This includes \$86.6 million in overcharges and \$14.4 million in interest and penalties

### December 2022 Settlement

Recology agreed to deposit \$25 million into a balancing account, which will be used to stabilize rates.

In addition, the settlement stipulates that if specified real property is sold, then ratepayers will be reimbursed for past rent paid for those properties.

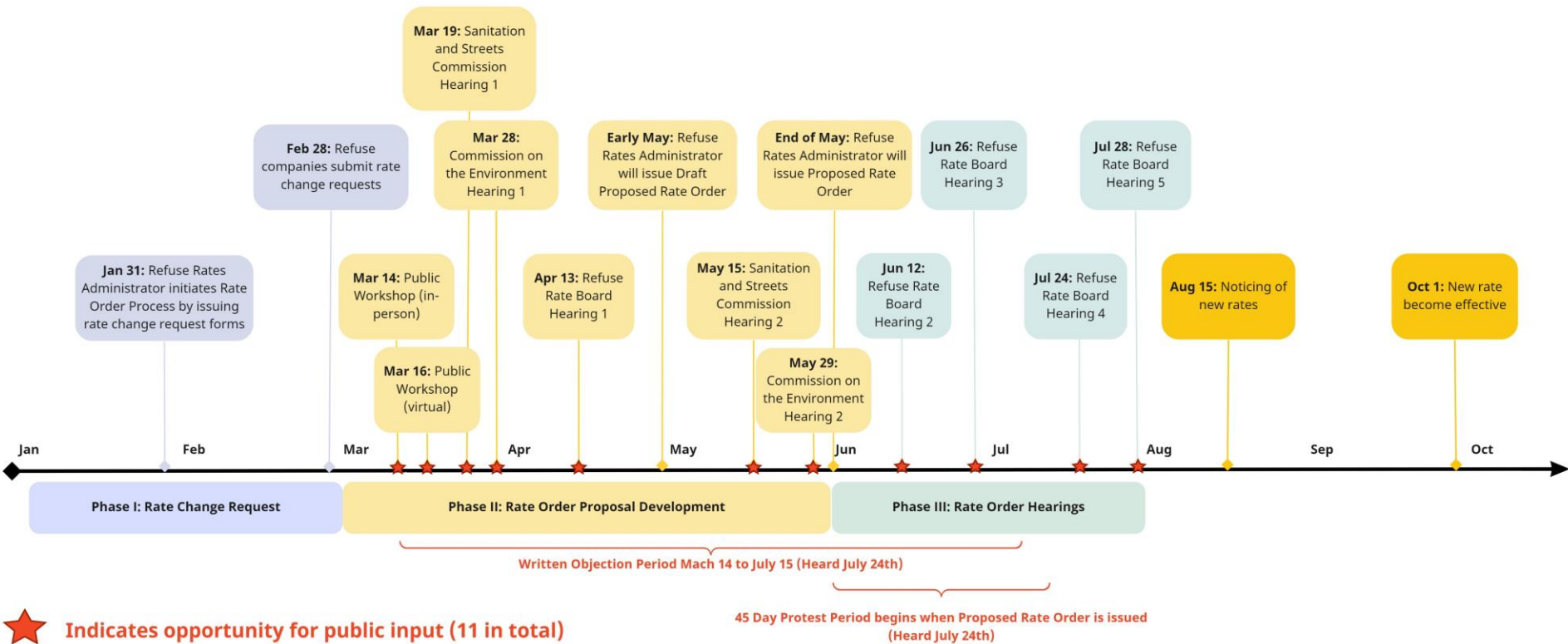
## Public Integrity Reviews

The Office of the Refuse Rates Administrator will also be taking guidance from a set of Public Integrity Reviews conducted by the Office of the Controller, published April 14, 2021, and May 16, 2022 (a third report related to an audit of the Landfill Agreement is pending release). Recommendations included:

- **Ensure conduct and reporting at the highest standards of ethical conduct.**
- **Greater transparency in financial statements:** Reporting with total sources and total uses, expenses by allocation, schedules for owned and leased properties, schedules for intercompany charges, etc.
- **Clear and consistent rate-setting methodology:** Aligning rate year with fiscal year, feature clear prospective methodology, consistent methodology for calculation of profit margin, consistent methodology for real property and equipment expenses
- **Regularly conduct rate analyses of comparable jurisdictions' refuse collection rates by customer class and service type.**
- **Establish a balancing account for rate and profit stability**
- **Ensure public access to all information**

# Rate-Setting Process: Overview

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# Rate-Setting Process: Roles

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## Refuse Rate Setting Input and Other Considerations

### Public Input

Ratepayers and members of the public

### City Departments

Department of Public Works

*Sanitation and Streets*

*Commission*

San Francisco Environment

Department

*Commission on the*

*Environment*

Department of Public Health--

Environmental Health Division

### Refuse Companies

Recology



## Refuse Rate Monitoring, Recommendation and Adoption

### Refuse Rate Monitoring and Recommendation

Refuse Rates Administrator

### Refuse Rates Adoption

Refuse Rate Board



**Adopted Rate Order**

# Components of the Rates

Refuse rates are outlined across six rate schedules. Rate terms last a minimum of 2 years and a maximum of 5 years. Agreed upon automatic Cost-of-Living Adjustments (COLA) may be applied between rate terms.

## City Regulated Uniform Rates

<b>Residential Refuse Rates</b>	<ul style="list-style-type: none"> <li>• Rates apply to residential buildings with 5 units or less, including single family homes.</li> <li>• Flat base charge per dwelling unit</li> <li>• Bin rates for trash, recycling, and composting</li> <li>• Includes rates for distance, elevation, and access/key charges</li> </ul>
<b>Apartment Buildings (6+ Units)</b>	<ul style="list-style-type: none"> <li>• Rates apply to residential buildings with 6 units or more</li> <li>• Flat base charge per dwelling unit</li> <li>• Bin rates for trash, recycling, and compost</li> <li>• Includes rates for distance, access, and special service charges (e.g. trap door)</li> <li>• Diversion discounts may apply</li> </ul>
<b>Tipping Fee</b>	<ul style="list-style-type: none"> <li>• A per ton fee for refuse delivered to Recology San Francisco facilities</li> </ul>

## Recology Set Uniform, Negotiated, and Other Rates

<b>Commercial Refuse Rates</b>	<ul style="list-style-type: none"> <li>• Uniform rates based on bin size and frequency for all commercial ratepayers</li> <li>• Charges for additional cardboard pickup</li> <li>• Additional fees related to cart placement, access, or excess weight</li> <li>• Diversion discounts may apply</li> </ul>
<b>Compactor and Debris Box Rates</b>	<ul style="list-style-type: none"> <li>• Disposal charge based on weight</li> <li>• Transportation charge based on geographical zone</li> <li>• Container rotation charge</li> </ul>
<b>Extra Services Refuse Rates</b>	<ul style="list-style-type: none"> <li>• Cardboard pickup charges</li> <li>• Extra bin pickup charges</li> <li>• Maintenance/Cart replacement charges</li> </ul>

# Rate-Setting Process: Components of the Rates

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Past practice for rate-setting begins with determining rate-eligibility for costs and revenues. Rate-eligible costs are then determined for profit eligibility. Once categorization of costs and revenues are determined, past practice requires a calculation of Operating Ratio (OR). For purposes of this presentation, we will present the inverse of the OR, which is the Allowable Profit Margin, which includes three main considerations for refuse rate setting:

1. **Allowable Profit Margin:** The Refuse Rate Administrator may propose a reasonable profit margin for Rate Board consideration.

$$\text{Allowable Profit Margin} = \text{Net Profit} / \text{Rate-Eligible Revenue Requirement}$$

2. **Net Profit:** Operating ratio and resulting net profit on eligible expenditures and associated revenues.

3. **Rate-eligible Revenue Requirement:** This is the amount of revenue needed to be generated by rate-eligible services in order to cover costs and generate the allowable profit.

$$\text{Rate-Eligible Revenue Requirement}$$

$$= \text{Eligible Expenditures} + \text{Allowable Profit}$$

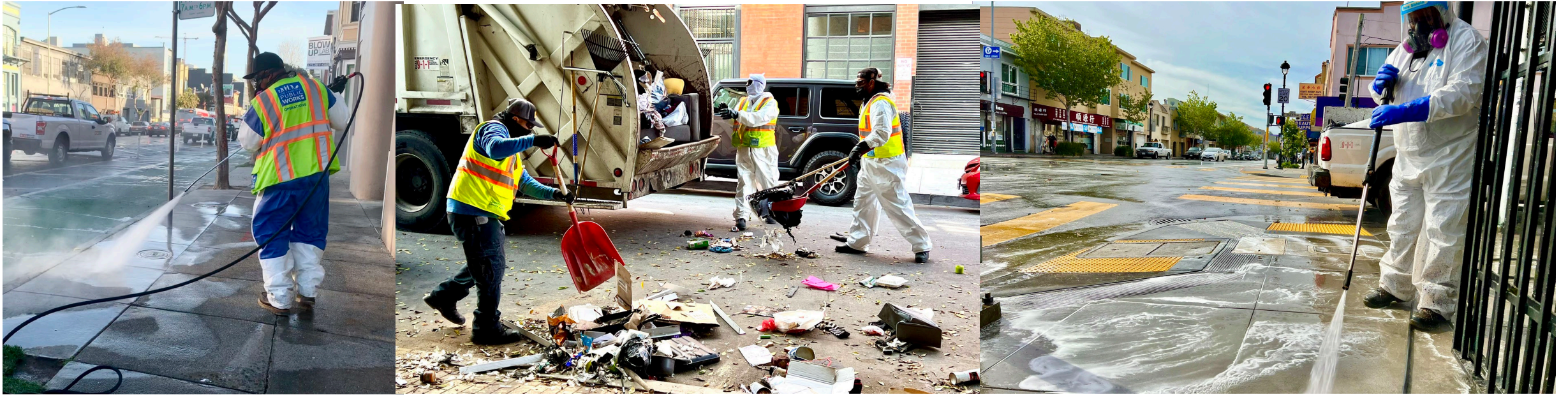
All rate-setting variables are projected, some of which are controllable and some of which are not. The percent difference between the projected revenue at current rates and the Rate-Eligible Revenue Requirement will determine the change to the refuse rates and tipping fee.

Past rates have included costs to fund the Zero Waste Incentive Account and the Solid Waste Fee Impound Account.

- **Zero Waste Incentive Account:** This is a waste diversion incentive account that Recology could draw down if certain diversion targets were met. This account generates approximately \$8 million per year. Meeting all targets would equal an additional 2% in profit margin.
- **Solid Waste Fee Impound Account:** This account funds select services at the City's Department of Public Works and the Environment Department, which include Citywide refuse-related cleaning services at Public Works and services to support meeting the City's Zero Waste Goals at Environment Department.

As a result of the settlement reached in December 2022, the next rate setting cycle will include consideration of the balancing account and other settlement provisions.

Questions?



# Refuse Rate Briefing

March 20, 2023

Bruce Robertson

Deputy Director of Financial Management and Administration

# Refuse Rate Goals

- **Continued Funding for ongoing programs**
  - Outreach and Enforcement (OnE) Team
  - Litter Patrol
  - Trash can cleaning
  - Bulky item pickup (residential)
  - Abandoned materials (sidewalk & streets)
  - Proactive illegal dumping operation (Bayview)
- **Procurement of new Trashcans and sensors**
  - Use of fund balance and prior-year savings
- **Funding for Trash Can Manager**
  - 1824 – Trash Can Manager position
- **Clarify Roles & Memorialize Expectations**
  - Recology must remove litter and illegal dumping within 5-foot area around trash cans
  - Frequency of trash can service
  - Improve tracking and monitoring of performance
  - Trash can maintenance and repairs



# Refuse Rate Funding for Public Works – Detailed Budget

Fund	14000						
Dept ID	207956						
Project	10034422						
Authority	20680						
				<b>Change Type</b>			
			<b>Account</b>				
<b>Activity</b>	<b>Activity Title</b>	<b>Account</b>	<b>Lvl 5 Title</b>	<b>One-Time</b>	<b>On-Going</b>	<b>Grand Total</b>	<b>Notes</b>
0001	PW Operating	506070	5060ProgPr	(11,900,000)	6,720,284	(5,179,716)	SES Litter and OnE Team. The reduction of \$11.9M is prior year savings moving to M&S.
		527000	5210NPSvcs	-	-	-	
		538000	5380CityGP	-	-	-	
		540000	5400Mat&Su	-	-	-	
0023	PW SWIA - Rate App Analysis	506070	5060ProgPr		167,953	167,953	PW SWIA Analyst
0024	PW SWIA - Refuse Can Cleaning	538000	5380CityGP		1,679,528	1,679,528	Grants - Can Cleaning
0025	PW SWIA - Refuse Can Replacemt	506070	5060ProgPr		94,054	94,054	SES Can Replacement (baseline labor
		540000	5400Mat&Su	15,000,000	846,482	15,846,482	New Cans
<b>Expenditure Total</b>				<b>3,100,000</b>	<b>9,508,301</b>	<b>12,608,301</b>	
0001	PW Operating	460148	4600C4Svcs	-	9,508,301	9,508,301	Baseline
		499999	49990BegFB	3,100,000		3,100,000	Use of Fund Balance
<b>Revenue Total</b>				<b>3,100,000</b>	<b>9,508,301</b>	<b>12,608,301</b>	

\* Not showing the funding for the new 1824 Trash Can Manager position





# Refuse Rate Funding for Public Works – Labor (\$6.7M)

- **Outreach and Enforcement (OnE) Team**

- 10.0 FTE
- Started in 2013
- The team is responsible for
  - educating merchants, property owners and residents of their rights and responsibilities regarding street and sidewalk cleanliness and enforcing City codes to ensure sanitation standards are met.

- **Additional Cleaning Staff**

- 16.0 FTE
- 7514 General Laborers and 7355 Truck Drivers
- Responsible for litter patrol and block cleaners

- **Labor Costs for Trash Can Replacement Work**

- Funding for Public Works labor associated with replacement of trash cans



# Refuse Rate Funding for Public Works – Non-Labor (\$2.8M)

- **Trash Can Steam Cleaning**

- Started in 2017 rate process
- \$1.7M in funding for routine cleaning trash cans citywide
- Provided by Community Youth Center of San Francisco (CYC)
- Services include:
  - Pressure washing of trash cans and surrounding area
  - Litter reduction sidewalk sweeping of areas surrounding trash cans
  - Notifying Public Works of graffiti and malfunctioning and damaged trash cans

- **Trashcan Maintenance**

- 3,300 trash cans Citywide
- \$940K in funding for maintenance of existing trash cans
- Funding to begin process of replacing existing trash cans

- **Refuse Rate Analytical Support Services**

- \$168k for analytical support of refuse rates



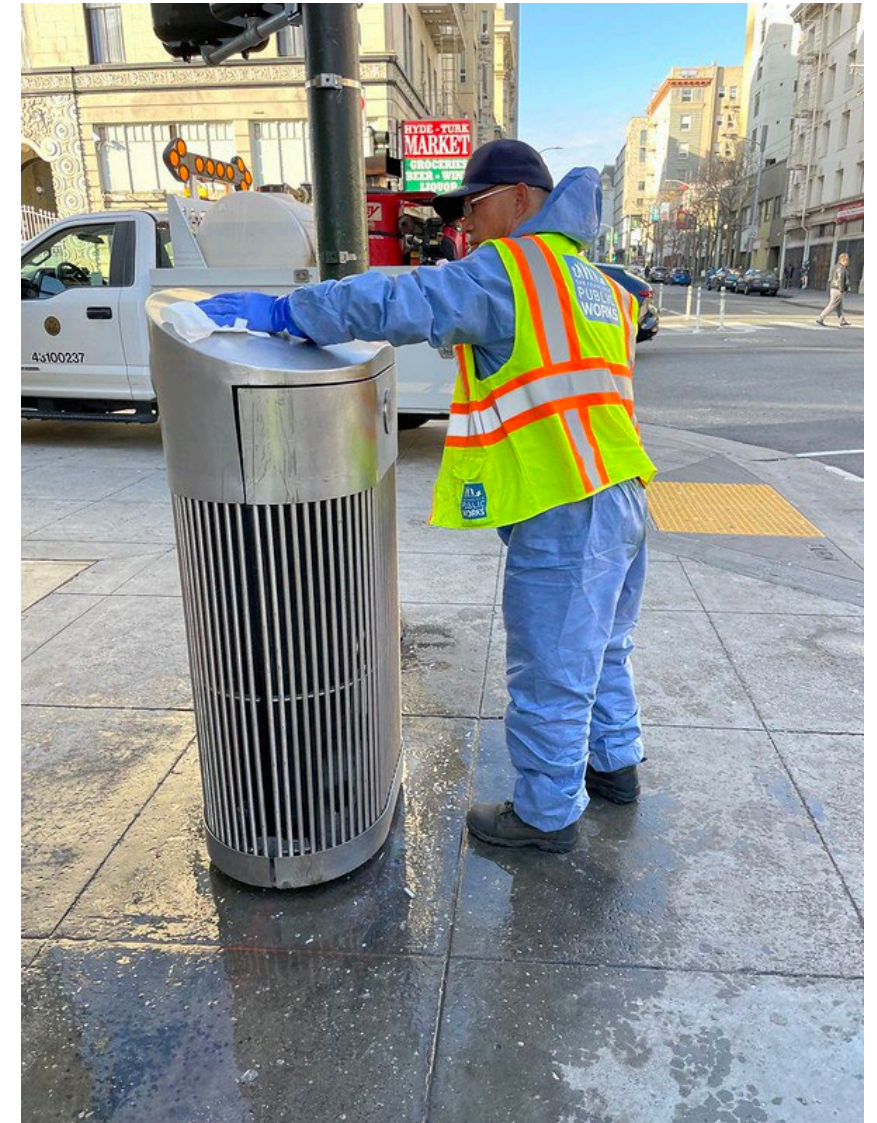
# Refuse Rate Funding for Public Works – Trash Cans

- **Trash Can Pilot**
  - Performance criteria
    - Rummage-resistant and tamper-proof
    - Easy to service and maintain
    - Sensor-ready
    - Accommodates 32-gallon rolling liner
    - Durable
  - 52 locations for trash can pilot
  - Two-month outreach strategy
    - 1,027 responses
    - 66K responses on social media
  - Stakeholder feedback
    - Recology
    - Public Works
    - Community Benefit Districts
- **Model that Met the Most Selection Criteria**
  - Slim Silhouette



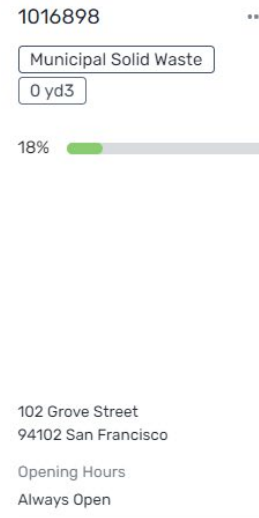
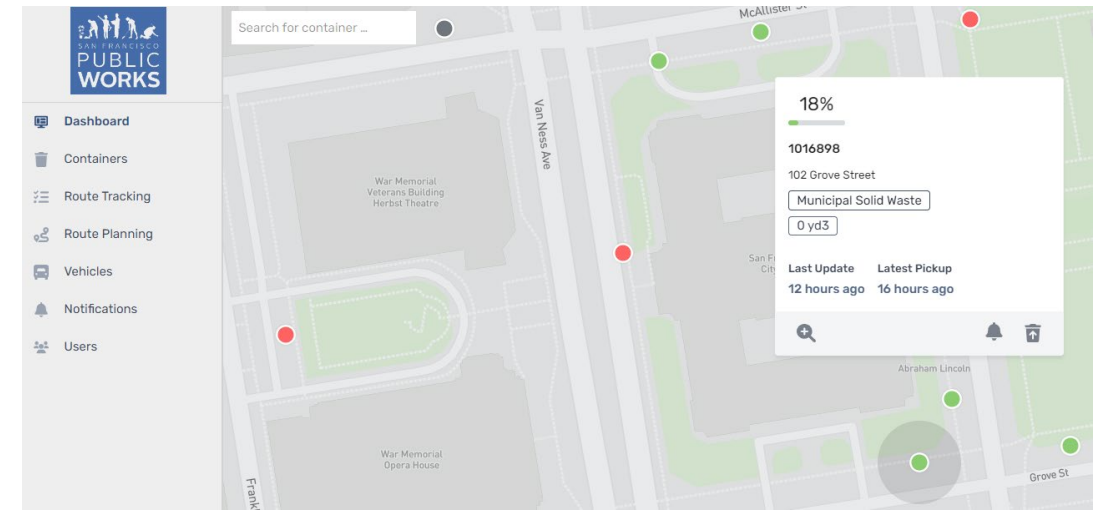
# Refuse Rate Funding for Public Works – Trash Cans

- **Funding - \$15M**
  - No additional impact on future rates
    - Use of fund balance (\$3.1M)
    - Use of prior-year savings (\$11.9M)
- **Next Steps**
  - Issue RFP
    - RFP will contain detailed design specifications
    - Manufacturer will do shop drawings
    - Manufacturer most likely will need to build prototypes and have an iterative design process related to fabrication methods
  - Additional Approvals Needed
    - Board of Supervisors (Contract over \$10M)
    - Civic Design Review
    - Planning (Historic Preservation)



# Refuse Rate Funding for Public Works – Trash Can Sensors

- Public Works has implemented 960 trash can sensors throughout the City in major commercial corridors.
- Sensors monitor fullness, temperature and fill rates to identify fill rates and patterns
- Sensors will send a 311 request to Recology indicating that a can needs to be emptied
- Goal is to mitigate container overflow, reduce number of collections, optimize operations and improve efficiency.
- Evaluating efficacy



# Questions?





# Rate Change Request

## Refuse Rates Workshops

Tuesday, March 14, 2023

Thursday, March 16, 2023



# Introduction

## Agenda

1. Commitment to San Francisco
2. Programs Serving Ratepayers
3. Business Impacts
4. Rate Change Request
5. Residential Rate Sample and Comparison
6. Question and Answer Period



# Commitment to San Francisco

*Provide excellent service and enhance the programs that help keep San Francisco clean and support the City's climate action goals at fair and competitive rates.*

# Programs Serving Ratepayers

## Three-stream collection service

### Keeping San Francisco Clean

- Abandoned materials collection
- Public receptacle service
- Bulky item recycling program
- District clean-up events

### Climate Action & Outreach

- Recycling processing facilities
- Diversion support for customers
- Compost giveaways
- Household hazardous waste pick-up

# Program Enhancements

- Increased Abandoned Materials Collection
- Increased Public Receptacle Service
- Contamination Management

# Business Impacts

## **Reduction in commercial activity**

Pandemic decreased economic activity

San Francisco's delayed recovery

## **Reduction in tonnage**

Recology San Francisco (RSF) receiving less tonnage

## **Increases in variable costs**

Inflationary related increases to labor and other expenses

# Rate Change Request

## Collection Rate Increase

	<b>RY 2024</b>	<b>RY 2025</b>
<b>Annual Increase</b>	3.90%	2.17%

# Rate Change Request

## RSF Tipping Fee Increase

	<b>RY 2024</b>	<b>RY 2025</b>
<b>RSF Tipping Fee Increase</b>	<b>16.36%</b>	<b>0.08%</b>

# Residential Rate Standard Service

	<b>Default Service Level</b>	<b>RY 2023 Rates</b>	<b>New RY 2024 Rates</b>	<b>New RY 2025 Rates</b>
<b>Component</b>	<b>Volume (gallons)</b>	<b>Charge (Current)</b>	<b>Charge (3.90% increase)</b>	<b>Charge (2.17% increase)</b>
<b>Unit charge</b>	--	<b>\$17.55</b>	<b>\$18.23</b>	<b>\$18.63</b>
Trash (grey)	16	\$7.33	\$7.62	\$7.79
<b>Recycling (blue)</b>	<b>64</b>	<b>\$14.66</b>	<b>\$15.24</b>	<b>\$15.58</b>
<b>Organics (green)</b>	<b>32</b>	<b>\$7.33</b>	<b>\$7.62</b>	<b>\$7.79</b>
<b>Monthly charge</b>	--	<b>\$46.87</b>	<b>\$48.71</b>	<b>\$49.79</b>

# Residential Rate Market Comparison

Even after proposed increases, residential rates are below nearby comparable cities

	<b>Current</b>	<b>Oct-24</b>	<b>Oct-25</b>
<b>San Francisco</b>	<b>\$46.87</b>	<b>\$48.71</b>	<b>\$49.79</b>
Oakland	\$55.24		
San Jose	\$54.69		





Thank you

