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Alaric Degrafinried
Acting Director

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May 27, 2020

John Porter
Vice President & Group Manager, San Francisco Region
250 Executive Park, Suite 2100
San Francisco, CA 94134-3306

Dear Mr. Porter,

Thank you for the proposal that Recology has submitted to Public Works for review and approval for improvements to the Construction and Demolition materials reclamation facility known as the iMRF. As approved by the Public Works Director in the 2017 rate hearing and affirmed by the Refuse Collection and Disposal Rate Board, Recology can propose projects to the City to increase diversion if it does not qualify for the Tier 3 and 4 Zero Waste Incentives in a given rate year. Recology proposals must include a detailed budget, timeline, and the projected increase in diversion. This proposal must be reviewed and approved by the Directors of the Department of the Environment and the Department of Public Works and be posted on the Public Works website for 30 days to allow for public comment.

The following three tables summarize the proposed budget, the estimated increase in diversion, and return on investment to the benefit of ratepayers because of the equipment investment for the iMRF facility.

Table 1: Project Budget Requested

Sources	Amount
Zero Waste Incentives, Tiers 3 & 4, FY 17/18	490,000
Zero Waste Incentives, Tiers 3 & 4, FY 18/19	3,764,949
Zero Waste Incentives, Tiers 3 & 4, FY 19/20	<u>3,869,484</u>
Total Zero Waste Incentives	8,124,433
Recology Funding	1,128,116
Total Sources	8,778,209
Uses	
Equipment Investment	7,873,689
Fire Monitoring Charge	26,520
Maintenance Manager	211,000
Service Technicians	417,000
Installation Contingency	250,000
Total Uses	8,778,209

As shown in Table 1, Recology is proposing to use \$8.1 million in Zero Waste Incentive funds supplemented with \$1.1 million in Recology funds for this project.

Table 2: Annual Estimate of Increased Diversion

Material	Current Average Tons Per Hour Recovered	Current % of Tons Recovered	Estimated New Per Hour Processed	Estimated % Recovery	Recovery Yield	Estimated New Tons per Hour Recovered	Net New Tons Recovered
Wood	1.44	7.2%	5.08	15.5%	95%	4.83	3.39
Grade B Wood	-	0.0%	2.8	8.0%	85%	2.38	2.38
Metals	2.21	11.1%	3.78	11.8%	95%	3.59	1.38
Concrete	0.22	1.1%	2.45	9.0%	90%	2.21	1.99
Cardboard	0.12	0.6%	0.32	0.9%	90%	0.29	0.17
Plastic/Paper	0.15	0.7%	0.32	0.9%	90%	0.29	0.14
Sheet Rock	0.30	1.5%	0.32	0.9%	90%	0.29	(0.01)
Fines	5.25	26.2%	8.75	28.0%	100%	8.75	3.50
Residue	-	51.6%	11.2	25.0%			-
Total Average Tons Per Hour Processed	9.69	100.0%	35.02	100.0%		22.63	12.94
Average Tons per Day (12 hours)	116.28		420.24			271.56	155.28
Annual Tonnage? (260 days)	30,232.80		109,262.40			70,605.60	40,372.80

* Two 8 hour shifts, 6 out of 8 hours is productive time.

As shown in Table 2, the existing iMRF facility recovers 30,233 tons annually. With the investments in new equipment, the facility will be able to recover 70,605 tons annually, which is 40,372 net new tons, a 133% increase over the facility’s current recovery capacity.

Table 3: Recology Return on Investment

Category	Amount
Increase in commodity revenue	109,486
Decrease in Zanker processing costs	2,264,880
Decrease in Hay Road disposal costs	510
Decrease in weekend and overtime hours	1,840,127
Increase in operating costs	(654,520)
Increase in hauling costs	(689,719)
Net annual savings	2,870,764
Total ZWIF Funds invested	8,158,018
Rate Funding Return on Investment	35%

As shown in Table 3, this project will result in a small increase in revenue and reductions and increases in various operational costs for a net savings of \$2.9 million annually and a 35% return on investment of the Zero Waste Incentive Funds to the long term benefit of ratepayers.

The 2017 Public Works rate approval included a contingent schedule from Recology to rebuild the iMRF facility, which was described as a \$63.4 million investment for a new facility capable of improving recovery of construction and demolition (C&D) debris and other materials, to be located on industrial property in or about San Francisco. Approving this contingent schedule request would result in an additional 1.85% increase in collection charges measured by the base rate year.

Recology has indicated that it may request approval for this project 12 and 16 months from now. Recology has stated is planning to relocate and reuse the equipment purchased in this proposal to the new iMRF facility.

If Recology requests to moves forward with this project, the following review guidelines established in the 2017 Director’s Order will apply:

- (1) The final capital and operating costs cannot exceed the amounts included in the 2017 application;
- (2) Recology must provide supporting documentation to substantiate its estimate that the investment will result in the ability to achieve a 70% recovery rate on C&D debris and significantly increased recovery for other materials currently processed at Tunnel Avenue;
- (3) To trigger the contingent schedule, Recology must provide documentation, including construction specifications, cost estimates, project schedules, and appropriate permit documents;
- (4) The request from Recology be posted on the Public Works website and subject to a 30-day review period;
- (5) The terms of the new lease are consistent with the depreciation and/or lease schedules for the facility; and
- (6) The annualized expense would not be added to the rate base until the facility goes into service.

If the Director of Public Works finds that the projected costs and resulting rate impact are greater than originally proposed in Recology's Application, the contingent schedule will not be approved. Recology may apply for rate review and consideration under streamlined procedures, as described in Section 14.1 of the 2017 Director's Report.

Based on staff analysis of Recology's proposal and answers to additional questions submitted to Recology by Public Works staff. I approve the use of Tier 3 and 4 incentive funds from the balance available from FY 17/18 and FY 18/19. Public Works cannot approve the use of incentive funds from FY19/20 until the close of the rate year and the submittal of year end reports which show that Recology did not meet its diversion targets.

Sincerely,



Alaric Degrafinried

cc: Deborah Raphael, Department of the Environment
Robert Haley, Department of the Environment
Julia Dawson, Public Works
Bruce Robertson, Public Works
Devin Macaulay, Public Works
Victoria Chan, Public Works

Attachment: Recology Proposal