



COLLECTION AND RECYCLING PROGRAM SUPPORT AND COMPLIANCE



STAFF REPORT

To: SBWMA Board Members
From: Cliff Feldman, Recycling Programs Manager
Farouk Fakira, Finance Manager
Date: September 22, 2016 Board of Directors Meeting
Subject: Resolution Approving the SBWMA Final Report Reviewing the 2017 Recology San Mateo County Compensation Application

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2016-35 attached hereto authorizing the following actions:

1. Approve the SBWMA Final Report Reviewing the 2017 Recology San Mateo County (Recology) Compensation Application (**Exhibit A** - Final Report) which delineates the recommended base Total Contractor's Compensation due to Recology for 2017 of \$56,172,233.

This Final Report (**Exhibit A**) addresses Recology's compensation due for 2017 and includes **Table 8** which delineates the Total Revenue Requirement. The Member Agencies are obligated to set rates to generate revenue to match the 2017 Total Revenue Requirement. Any shortfall in net revenue to Recology will result in an interest payment to Recology in the subsequent rate year (e.g., 2015 final surplus or shortfall is determined in 2016 and included in 2017 revenue requirement).

Analysis

The SBWMA Draft Report Reviewing the 2017 Recology Compensation Application issued to the TAC and Board on August 12, 2016 addresses Recology's compensation due for 2017 and the Total Revenue Requirement. The Member Agencies are obligated to set rates to generate revenue to match the 2017 Total Revenue Requirement. Any shortfall in net revenue to Recology will result in an interest payment to Recology in the subsequent rate year (e.g., 2016 final surplus or shortfall is determined in 2017 and included in 2018 revenue requirement).

The Member Agencies were requested to submit comments on the Draft Report to the SBWMA by August 26. The Draft Report will be revised based on the feedback received from the Member Agencies and the Final Report will be issued to the Board on September 15, 2016, for the Board's consideration at the September 22, 2016 Board of Director's meeting.

SBWMA Review of 2017 Recology Compensation Application

The results of implementing the cost adjustment methodology prescribed in the Member Agency's Franchise Agreements for Solid Waste, Recyclable Materials and Organic Materials Collection Service (Agreements) with Recology to determine the Rate Year Seven (i.e., 2017) compensation results in Total 2016 Contractor's Compensation of \$56,172,233, which is a decrease of \$1,117,186 (-2.0% decrease from prior year) due primarily to the following:

- Lower fuel cost in 2017 due to -38.3% reduction in the Fuel Index compared to prior year.
- A scheduled reduction in Interest Expense that is -24.7% lower than prior year.

- Reduced payment by Recology of diversion based Performance Incentive/Disincentives.

Recology's 2017 compensation is compared to 2016 in Table 1 below.

Table 1

Total Contractor's Compensation	Recology Compensation			
	2016 Cost	2017 Cost	Change	%
Base Compensation	\$57,262,816	\$56,187,035	\$ (1,075,781)	-1.9%
Incentives / Disincentives	\$26,604	(\$14,802)	\$ (41,405)	-155.6%
Total Contractor's Compensation	\$57,289,420	\$56,172,233	\$ (1,117,186)	-2.0%

The adjustments to compensation for 2017 represent a decrease in the base compensation of 1.9% or \$1,075,781 from 2016. The results of the adjustment process are detailed by expense category in Table 3 of the Draft Report.

As discussed in detail in Section 3.A of the Draft Report, Recology's 2017 compensation includes several cost or revenue adjustments such as including the prior year's under or over payments to/from Recology. These include:

- Performance Incentive/Disincentive payments (and additional Liquidated Damages) for 2015
- 2014 Revenue Reconciliation surplus plus interest of \$3,033,742
- 2015 Revenue Reconciliation shortfall plus interest of \$47,566

The 2014 and 2015 Revenue Reconciliation balances owed to/from Recology are a true-up of what was paid to Recology versus what was owed and the resulting interest payment for any shortfall. This is not due to any change in Recology compensation but rather due to more or less revenue generated to pay the approved compensation.

Changes from August 12, 2016 SBWMA Draft Report (i.e., Table 8) to September 15, 2016 SBWMA Final Report

The following changes have been made to Table 8 (Exhibit A):

- Per the request of Menlo Park staff, the City's 2014 shortfall payment to Recology of \$176,439 (E.2) was added to reflect the City's June 2016 payment to Recology of \$360,000. (The reconciliation of the 2014 shortfall would typically be accounted for with submittal of Recology's March 31, 2017 Revenue Reconciliation Report for Rate Year 2016.)
- Including the additional shortfall payment to Recology of \$176,439 in line E.2 resulted in changing the 2017 Total Rate Adjustment Percentage (line F.3) from -0.08% to -1.0%.
- The shortfall payment of \$2,371,095 made by Belmont was moved from row E.1 to row E.2 (immaterial change).
- Corrected a typo in the calculation formula in row C.2 (immaterial change).

Rate Setting and Approval Process

This SBWMA Draft (and Final) Report and recommendation is to determine the compensation owed to Recology for collection services in 2017. This Report also provides Table 8 (Exhibit A) which establishes the final Revenue Requirement that will be used as the basis for recommending the 2017 rate adjustments. The Revenue Requirement includes compensation to Recology for solid waste, recyclables and organic materials collection and

Pass-Through costs, which include Agency fees, and disposal and processing costs at the Shoreway Environmental Center.

Article 11 of the Franchise Agreements states the following:

- Each Member Agency is obligated to set rates as necessary to generate annual gross revenues billed by Recology equal to the approved compensation amount plus all approved pass-through costs.
- If an Agency sets a rate that is below the approved recommendation contained in the Final Report, or if an Agency delays imposing a rate increase effective January 1, 2017, and net revenues billed by Recology in 2017 are less than needed to cover the approved total contractor's compensation delineated in the Final Report, the Agency will be obligated to pay interest to Recology on the difference.

Background

In 2005, the SBWMA and its Member Agencies initiated a five and a half year collection services contractor selection process that resulted in Recology and the Member Agencies executing Franchise Agreements ("Agreements") for Collection Services. Eleven of the twelve SBWMA Member Agency Agreements have the same methodology used to calculate the compensation paid to Recology. One Member Agency (i.e., City of Belmont) used a different compensation methodology; however, use of this different methodology has no bearing on the costs or services provided to the other 11 Member Agencies. Inclusion of the City of Belmont in the cost calculations with the other 11 Member Agencies is necessary in order to accurately implement the cost allocation process prescribed in the Agreements.

The compensation adjustment methodology provisions in the Member Agency Agreements are contained in Article 11, Attachment K and Attachment N. Article 11 provides an overview of the methodology and describes the process by which aspects of the compensation adjustment process shall be implemented.

Note: In this staff report and all attachments, the term "cost" and "compensation" are intended to have the same meaning. The term "cost" is not intended to mean Recology's true operating cost which is unknown, but rather what the company is paid to perform the services.

Fiscal Impact

Variance Analysis

Rate revenue from the total SBWMA Member Agencies is calculated to require a weighted average increase of 1.5% (**Exhibit A**, Table 8, row C.3) for 2017 rates to cover the Total Revenue Requirement for the Recology cost, pass through costs, and the prior year's revenue reconciliation surplus/shortfall (**Exhibit A**, Table 8, row B.1 and B.2). Tables comparing 2017 costs to 2016 costs and showing the components of the 2017 rate adjustments by Member Agency are included in the Draft Report as Appendix D – Member Agency Variance Analysis of Total Collection Cost and Rate Impact.

Total Collection Rate Adjustment

The total rate adjustment is provided in the Draft (and Final) Report in **Table 8 (Exhibit A)**. This table presents the Total Collection Rate Adjustment from all sources that impact rates by Member Agency, as follows:

- **Section A** - This section provides the estimated 2017 Collection Revenue using 2016 rates (**A.1**), the 2017 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2017 Revenue Requirement (**A.7**), the estimated 2017 Surplus/Shortfall balance with Recology (**A.8**), Agency Fees on shortfalls (**A.9**), and the Rate Adjustment Percentage (**A.10**). *The total SBWMA rate adjustment is positive 1.5%.*

- **Section B** – This section provides the results of the 2015 Recology Revenue Reconciliation surplus/shortfall that must be added to the 2017 rate adjustment. *There is no associated rate adjustment in total, but each Member Agency has an adjustment.*
- **Section C** – This section provides the 2017 Required Rate Adjustment which is the sum of sections A and B. **The total SBWMA rate adjustment is positive 1.5%.**
- **Section D** – This section provides the “2016 Estimated Surplus/Shortfall” balance with Recology (D.1) and the associated Agency Fess on this amount (D.2). Also in this section is the final 2014 surplus/shortfall (D.3) which would have been included in the 2016 rate adjustment and the total estimated surplus for all SBWMA Member Agencies which totals \$3,523,537 (D.4). The 2016 Revenue Reconciliation will be finalized in 2017, similar to how the 2015 Revenue Reconciliation was finalized in 2016.
- **Section E** – This section provides the amount of year-to-date (YTD) surplus balances (E.1) which Member Agencies have requested Recology to refund (i.e., Atherton, Burlingame, Redwood City and West Bay Sanitary District), and the amount of YTD shortfall payments (E.2) which Member Agencies (e.g., Menlo Park) have paid to Recology. It also includes an adjustment related to Belmont’s unique compensation methodology with Recology. (Please note that **Exhibit B** attached to this staff report provides the refunds from Recology for surpluses and the payments to Recology for shortfalls for 2014, 2015 and 2016.)
- **Section F** – This section provides the “Total Rate Adjustment” and the cumulative surplus/shortfall of \$1,002,603 (F.2) which includes the result of Sections D and E. **The total SBWMA recommended rate adjustment is a decrease of 1.0% (F.3). The Member Agencies are obligated to set rates to generate the revenue needed as denoted in Section F per the MOU between Recology and SBWMA. Agencies that set rates lower than delineated in Section F and experience a shortfall in revenue are liable for future interest charges from Recology.**

Attachments:

Resolution No. 2016-35

Exhibit A – SBWMA Final Report Reviewing the 2017 Recology San Mateo County Compensation Application

Exhibit B – Member Agency Refunds from Recology for Surpluses and Payments to Recology for Shortfalls



RESOLUTION NO. 2016-35

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING THE SBWMA FINAL REPORT REVIEWING THE 2017 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

WHEREAS, On February 28, 2013, the South Bayside Waste Management Authority (SBWMA) Board of Directors approved modifications to the schedule prescribed in the Member Agencies Franchise Agreements for Collection of Recyclable Materials, Organic Materials and Solid Waste with Recology San Mateo County (Recology) specifying that the SBWMA Board of Directors' was required to submit comments, questions and concerns on the Draft Report to the SBWMA by August 30 each year; and,

WHEREAS, The SBWMA prepared and issued to the SBWMA Board of Director's on August 12, 2016 the SBWMA Draft Report Reviewing the 2017 Recology Compensation Application (Report); and,

WHEREAS, The Draft Report issued by the SBWMA on August 12, 2016 was updated based on feedback from Member Agencies and the SBWMA subsequently issued the Final Report (**Exhibit A**) to the Board of Directors on September 15, 2016; and,

WHEREAS, The Final Report recommends a 2.0% decrease in the total contractor's compensation when compared to the 2016 compensation approved by the SBWMA Board of Director's on September 24, 2015 per Resolution No. 2015-25. The total 2017 Recology contractor's compensation is \$56,172,233.

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby approves:

1. The SBWMA Final Report Reviewing the 2017 Recology San Mateo County Compensation Application.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 22nd day of September, 2016, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist.				

I HEREBY CERTIFY that the foregoing Resolution No. 2016-35 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on September 22, 2016.

ATTEST:

Cyndi Urman, Board Secretary

Bob Grassilli, Chairperson of SBWMA



SBWMA FINAL REPORT REVIEWING THE 2017 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

September 15, 2016

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APPENDICES

- APPENDIX A** – Recology 2017 Compensation Application Issued on August 10, 2016 Reflecting Redline Changes from the Versions Submitted on June 15 and July 22, 2016 (Part I Sections 1 – 4 Only)
- APPENDIX B** – SBWMA Questions and Comments on Recology 2017 Compensation Application Issued June 29, 2016 (with Recology’s Responses Submitted on July 22, 2016)
- APPENDIX C** – Member Agency Questions and Comments on Recology 2017 Compensation Application (with Recology’s Responses)
- APPENDIX D** – Member Agency Variance Analysis of Total Collection Cost and Rate Impact

SECTION 1 EXECUTIVE SUMMARY

1.A Summary

The South Bayside Waste Management Authority (SBWMA/RethinkWaste) is required to review the Recology San Mateo County (Recology) 2017 Compensation Application (Application) for completeness, accuracy and consistency as prescribed in the Franchise Agreements between the SBWMA Member Agencies and Recology. The Application is to document the results of Recology following the prescribed compensation adjustment process detailed in Article 11, and Attachments K and N of the Member Agency Franchise Agreements. Specifically, this process includes applying the various indices to the approved 2016 compensation to arrive at the 2017 compensation, allocating the 2017 compensation to the Member Agencies, and adding the prior year revenue reconciliation balances.

This Final Report provides the results of SBWMA's review of Recology's 2017 Application and the critical analysis by the SBWMA of all components that make-up the total revenue requirement for Member Agencies to set solid waste rates, including pass through costs (i.e., Member Agency fees, disposal and processing costs, and any Member Agency specific contract changes) and prior year surplus/shortfalls owed to/from Recology.

Also provided is a variance summary of the Total Revenue Requirement for 2016 to 2017 by Member Agency, which includes the compensation paid to Recology and pass-through costs (**Appendix D**). In addition, the SBWMA provides the total rate impact for each Member Agency (**see Table 8 on pages 13 and 14**) and recommended rate adjustment for 2017, which consolidates all the projected revenue and cost components associated with the solid waste rate setting process by Member Agency.

1.B Compensation Application Process and Issuance of SBWMA Report

The 2017 Recology Compensation Application was submitted to the SBWMA and Member Agencies on June 15, 2016. On June 29, 2016 the SBWMA and one Member Agency (i.e., San Mateo County) submitted questions and comments to Recology. On July 22, 2016 Recology submitted a revised 2017 Compensation Application and responses to the SBWMA and Member Agency's questions and comments. Then on August 10, Recology submitted another revised Application reflecting additional changes per the request of the SBWMA. **Appendix A** provides Part 1 of Recology's revised August 10 (redlined) version of its 2017 Compensation Application.

Appendix B provides the SBWMA's questions and comments to Parts 1 and 2 of Recology's Compensation Application, and Recology's response submitted on July 22. **Appendix C** provides the questions and comments submitted by Member Agencies (i.e., San Mateo County) and Recology's response. The SBWMA provided all Member Agencies their detailed revenue, disposal and processing cost projections on July 25, 2016 and requested that changes be submitted by August 7.

Table 1 on the next page shows the complete schedule to review and comment on Recology's Compensation Application. This Final Report provides all the necessary information for Member Agencies to adjust solid waste rates for 2017, if necessary.

Table 1
2016 Schedule to Approve Recology 2017 Compensation

<u>Due Date</u>	<u>Milestone</u>
June 15, 2016	Recology 2017 Compensation Application Submitted to Member Agencies and SBWMA
June 29, 2016	Member Agencies and SBWMA Comments Due to Recology
July 22, 2016	Revised Recology 2017 Compensation Application Submitted to Member Agencies and SBWMA
August 12, 2016	SBWMA Draft Report Reviewing the 2017 Recology Compensation Application Issued to Member Agencies
August 26, 2016	Member Agencies Written Comments on SBWMA Draft Report Due to SBWMA
September 8, 2016	SBWMA TAC Meeting: Staff Update and Discussion
September 15, 2016	SBWMA Final Report Issued to Member Agencies/Board
September 22, 2016	SBWMA Board Meeting: Consideration of Final Report

1.C Summary of Notable Items in the 2017 Recology Compensation Application

Notable items included in the 2017 Recology Compensation Application include:

- 2015 revenue reconciliation of surplus/shortfall and interest payments due to/from Recology (Table H in Recology Application).
- Adjustment to Performance Incentive/Disincentive and Liquidated Damages payments (Table F in Recology Application).
- A 38.0% decrease in fuel costs based on the change in the Fuel Index.
- Overall 2.0% Total Compensation decrease.

1.D Recology Cost Allocation Process by Member Agency

The process to allocate Recology’s cost equitably across all Member Agencies is prescribed in Article 11 and Attachment K of the Franchise Agreements. The collection cost per Member Agency varies based on topography, housing density, traffic patterns, customer subscription levels, etc., even though the services provided are uniform across the Member Agencies. For these reasons, the cost to provide service is allocated to the individual Member Agencies based on operational metrics. Specifically, Recology’s costs are broken into nine cost categories and each is allocated based on four operational statistics specific to each Member Agency. These operational statistics are updated annually in April/May and include:

1. Annual route labor hours
2. Annual route hours
3. Number of containers in service
4. Number of customer accounts serviced

Per section 7.12 of the Franchise Agreements, Recology conducted its Annual Route Assessment over a four week period in April/May 2016. The statistics compiled from this Route Assessment are used to allocate costs for 2017. The cost allocation process is similar to the practice used under the Allied Waste/Republic Services compensation methodology. Year to year variances are the result of several factors addressed by Recology in sections 3.2 and 3.3 of its Application.

1.E Recommendation

Based on the net results of the cost adjustments calculated in the 2017 Recology Compensation Application, SBWMA is recommending that the Board approve an adjustment to Recology's 2017 compensation as delineated in **Table 2** below. **Table 2** summarizes the adjusted 2017 costs and changes from 2016. The total change in Recology's compensation for 2017 is a decrease of \$1,117,186 or 2.0% from 2016.

Table 2 – Summary of Adjusted 2016 Costs to 2017 Costs

RECOLOGY COMPENSATION SUMMARY	2016 Cost	2017 Cost	% of Total Cost	\$ Change	% Change
Total Annual Cost of Operations	50,681,506	49,987,543	89.0%	(693,963)	-1.4%
Profit	5,320,158	5,247,311	9.3%	(72,847)	-1.4%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	56,001,664	55,234,855	98.3%	(766,810)	-1.4%
Contractor Pass-Through Costs					
Interest Expense	1,629,656	1,306,716	2.3%	(322,940)	-19.8%
Interest Expense on Implementation Cost	53,748	43,030	0.1%	(10,718)	-19.9%
Contract Changes to Specific Agencies	(422,253)	(397,566)	-0.7%	24,687	-5.8%
Total Contractor Pass-Through Costs	1,261,152	952,180	1.7%	(308,971)	-24.5%
BASE CONTRACTOR'S COMPENSATION	57,262,816	56,187,035	100.0%	(1,075,781)	-1.9%
Other Adjustments					
Performance Incentives / Disincentives	26,604	(14,802)	0.0%	(41,405)	-155.6%
Total Other Adjustments	26,604	(14,802)	0.0%	(41,405)	-155.6%
TOTAL CONTRACTOR'S COMPENSATION	\$57,289,420	\$56,172,233	100.0%	\$(1,117,186)	-2.0%
Note: Includes Agency specific contract changes (Hillsborough, Menlo Park, San Carlos).					

SECTION 2 BACKGROUND

2.A Franchise Agreement Terms

Eleven of the twelve SBWMA Member Agency Agreements use the same methodology to calculate the compensation owed to Recology. One Member Agency (i.e., City of Belmont) uses a different compensation methodology; however, using this different methodology has no bearing on the costs (compensation) or services provided to the other eleven Member Agencies.

The compensation adjustment methodology is detailed in Article 11, Attachment K and Attachment N in the Member Agency Franchise Agreements. Article 11 describes the methodology and process by which the compensation adjustment process shall be implemented. Attachment K provides more detail on this process and how costs (compensation) will be allocated amongst the Member Agencies. Attachment N includes a series of forms (worksheets) that breakout Recology's compensation and data used in the cost allocation process.

Cost Adjustment Process

Attachment K, Table 1 of the Franchise Agreements prescribes a detailed process to adjust Recology's costs during the full ten-year term of the Franchise Agreements. A flowchart in Recology's Compensation Application (see table D) illustrates graphically the cost adjustment process that is conducted each year.

2.B Annual Revenue Reconciliation

For rate years 2012 through 2019 there is an annual revenue reconciliation process to determine the net revenue Recology retained versus the amount actually owed to the company. The calculation compares the approximately **\$100** million gross revenue billed, less contractor paid pass-through expenses for Member Agency fees and disposal and processing expense at the Shoreway facility (owned by SBWMA/RethinkWaste), versus the approved contractor's compensation. This revenue reconciliation process results in a surplus or shortfall owed to/from Recology by Member Agency. This surplus or shortfall will be added to or subtracted from the Recology's compensation for the subsequent rate year (in this case for 2017).

The Recology 2015 Revenue Reconciliation Report was submitted to the SBWMA and Member Agencies on March 31, 2016. Staff reviewed this 2015 Revenue Reconciliation Report and contracted an independent firm (i.e., R3 Consultants), to thoroughly review it, which included validating the accuracy of the results by Member Agency. On July 28, 2016 the Board approved agenda item 7D which included the audit findings and results (i.e., final 2015 surplus/shortfall and interest) of the revenue reconciliation that will be added to or subtracted from Recology's 2017 compensation unless it was requested to be refunded directly back to a Member Agency.

2.C Review of Compensation Application by SBWMA for Accuracy and Completeness, and Issuance of Final Report

The Franchise Agreements state that the SBWMA is responsible for annually conducting a review and analysis of Recology's Compensation Application. SBWMA staff conducts a thorough review of the data, calculations, index adjustments, and the cost allocation process. This review is used to prepare the analysis contained in this report including any changes and adjustments to Recology's compensation. Recology is obligated to promptly provide to the SBWMA any missing information, explanations and agreed changes upon request during the Compensation Application review process. Recology submitted a revised

Compensation Application on July 22 based on staff and Member Agency comments. The questions and comments submitted to the company during the initial review period in June are provided in **Appendices B and C**. Recology then submitted its final 2017 Compensation Application on August 10 at the request of the SBWMA.

SECTION 3 2017 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

3.A Description of Compensation Adjustments

The 2017 Recology Compensation Application is based on adjusting 2016 cost categories by applying the changes in several indices to arrive at the 2017 compensation by cost category. In the Compensation Application, the term “cost” really refers to “compensation.” Please note this does not mean Recology’s “true” cost as this is an index based compensation approach and not a “cost plus” approach. The SBWMA moved from a “cost plus” compensation model to a new “fixed price plus index adjustment” compensation methodology with the new Recology contract that started on January 1, 2011 and this change has resulted in substantial savings to the Member Agencies.

The Franchise Agreements with Recology also provide for additional compensation adjustments for special issues related to performance incentive/disincentive payments (and liquidated damages) and a negotiated cost adjustment for Hillsborough. The contract also entitled Recology to receive two cost adjustments in 2011 and 2013 to address service level changes to the number of residential customer accounts and commercial service levels.

Changes to Annual Adjustment to Wages and Benefits in the Collective Bargaining Agreements. The 2017 Compensation Application is the fourth one whereby all wages and benefits costs are adjusted based on a pre-determined CPI index. The Franchise Agreements prescribe that when the Collective Bargaining Agreements (CBA) in effect at the start of the contract were either amended or expired, the annual adjustment to wages and benefits would then be tied to a CPI index and not subject to the actual terms (i.e., increases) in the CBA. The three CBA’s expired in 2013, therefore the adjustment to CBA wages is now limited to a pre-determined Federal labor CPI index. In 2011, 2012 and 2013 of the Recology contract, and throughout the term of the previous Allied Waste/Republic Services contract(s), the actual wage and benefit rate increases specified in the CBA were used to adjust these cost categories.

Recology Annual Revenue Reconciliation Report for 2015. Recology submitted a Revenue Reconciliation Report to the SBWMA on March 31, 2016 which compares the approved compensation owed to Recology for 2015 with the actual net funds retained by Recology after paying for pass-through costs for disposal and processing at Shoreway and Agency fees (e.g., Franchise Fees) paid to each Member Agency. The SBWMA thoroughly reviews this Report and it is audited by an independent third party firm (i.e., R3 Consultants). The audit results are then provided to the Board for consideration and approval. Each Member Agency annually generates a surplus or shortfall which is added to or subtracted from the next year’s Revenue Requirement. The total 2015 surplus including interest is \$47,566 (\$121,886 surplus less interest due to Recology of (\$74,320), see **Tables 6 and 8**.

Interest Payment to Recology for 2015 Revenue Reconciliation Shortfall. The Franchise Agreement(s) with Recology provide for an interest charge at the rate of prime plus one percent (i.e., currently 4.25%) for the shortfall identified in the 2015 Revenue Reconciliation Report described above. The calculation of interest on shortfalls was clarified and approved by the Board on March 27, 2014 (agenda item 8A), authorizing the Executive Director to execute a Memorandum of Understanding (MOU) with Recology

establishing guidelines regarding future interest calculations on surplus revenue. The net amount of interest charged to some Member Agencies from Recology for 2015 is \$74,320 (Table H in the Recology Application).

In addition, on July 8, 2015, the SBWMA Board of Directors and Technical Advisory Committee (TAC) Members were provided a revision to the MOU with Recology which clarifies that interest will not be charged to a Member Agency that pays Recology by September 30 the amount of any shortfall for the previous year as determined by the Board approved Revenue Reconciliation Report.

Performance Incentive/Disincentive Payments (and Liquidated Damages). As prescribed in the Franchise Agreement(s) with Recology, the company included the 2015 Performance Incentives/Disincentives and Liquidated Damages calculations in the 2015 Annual Report submitted on March 31, 2016. The Board approved additional disincentive payments and liquidated damages of \$3,096 be paid by Recology at the July 28, 2016 Board meeting. The 2015 disincentive payment reported by Recology is primarily due to a decrease in recycling achieved during 2015 over that achieved in 2014. The total annual Recology recycling diversion incentive payments (not net of additional liquidated damages and disincentive payments per the annual audit) from 2011 to 2014 and the Recology recycling diversion disincentive payment for 2015 are as follows:

- 2011 - \$913,060 (diversion incentive payment to Recology)
- 2012 - \$489,164 (diversion incentive payment to Recology)
- 2013 - \$257,650 (diversion incentive payment to Recology)
- 2014 - \$42,217 (diversion incentive payment to Recology)
- 2015 - (\$14,215) (diversion disincentive payment to the Member Agencies)

The year-over-year change in the diversion payment from 2014 to 2015 is a 134% reduction. The diversion achieved annually is leveling off as programs mature. The net performance incentives/disincentives and liquidated damages payments owed to the Member Agencies is different than the diversion only disincentive (or prior incentive) payment discussed above. The net amount owed to the Member Agencies and deducted from Recology's 2017 compensation is \$14,802 (Table F in Recology's Application).

The Performance Incentive/Disincentive payments are allocated to the Member Agencies based on the quantity of solid waste tons disposed by each. Per the Franchise Agreements, the Liquidated Damages reported by Recology are not allocated but applied specifically to each Member Agency with the exception of the additional performance disincentives/liquidated damages approved by the Board on July 28, 2016.

Recurring Items

Three cities also have unique cost adjustments: Menlo Park has an additional cost for customer billing services (\$24,529) that was done in-house prior to 2011, Hillsborough has a cost reduction for not buying new organics carts at the start of the contract (\$13,510),¹ and San Carlos has a cost reduction for residential food scraps kitchen pails bought by the City prior to the start of the new contract with Recology (\$5,567).

¹ The 2017 Application includes depreciation for replacement organic carts from 2011 through 2013. This depreciation totals \$13,510, which reduces the Town's savings (originally calculated at \$32,502) for purchasing used carts. This new depreciation expense commencing in 2015 was approved by the Town contingent on Recology's compliance with conditions put forth by the Town related to reporting and ownership of the containers upon expiration of the Franchise Agreement.

The Town of Hillsborough also negotiated a reduction in the cost of backyard service which is adjusted each year. The 2016 cost reduction is \$416,528.

3.B Adjustment of 2016 Compensation to 2017

As prescribed in Article 11, Attachment K and Attachment N of the Franchise Agreements, the adjustment of the 2016 compensation to 2017 compensation is predominantly based on the annual percentage change in select CPI indices applied to various cost categories. As previously explained, the Recology drivers, mechanics and office clerical CBA related expenses have all reverted to a CPI index adjustment commencing in rate year 2014.

Table 3 on the following page provides the detailed results from making all compensation adjustments from 2016 to 2017. The application of all adjustment factors to the costs approved in the company's 2016 Compensation Application results in an overall decrease in Recology's base 2017 compensation totaling \$1,075,781 or 1.9% from 2016. Performance Incentive (and Liquidated Damages) payments declined by \$41,405 (155.6%). The result is a net decrease in total contractor's compensation of \$1,117,186 or 2.0 % for 2017 from 2016. Please refer to **Table 3** on the next page.

Table 3 – Results of Adjustments of 2016 Costs to 2017 Costs

RECOLOGY COMPENSATION DETAIL	Costs - 2016	Costs - 2017	% of Total Cost	\$ Change	% Change
Annual Cost of Operations					
Direct Labor-Related Costs					
Wages	16,469,842	16,758,609	29.8%	288,768	1.8%
Benefits	6,555,040	6,669,971	11.9%	114,930	1.8%
Payroll Taxes	1,370,291	1,394,316	2.5%	24,025	1.8%
Workers Compensation Insurance	1,452,653	1,471,775	2.6%	19,122	1.3%
Total Direct Labor Related-Costs	25,847,826	26,294,671	46.8%	446,845	1.7%
Direct Fuel Costs	3,348,085	2,066,892	3.7%	(1,281,193)	-38.3%
Other Direct Costs	2,169,270	2,178,164	3.9%	8,894	0.4%
Depreciation					
- Collection Vehicles	4,016,792	4,016,792	7.2%	-	0.0%
- Containers	1,882,550	1,882,550	3.4%	-	0.0%
Total Depreciation	5,899,342	5,899,343	10.5%	(0)	0.0%
Allocated Indirect Costs excluding Depreciation					
General and Administrative	7,181,152	7,267,914	12.9%	86,762	1.2%
Operations	1,777,985	1,787,232	3.2%	9,247	0.5%
Vehicle Maintenance	3,067,890	3,106,609	5.5%	38,718	1.3%
Container Maintenance	1,050,330	1,047,093	1.9%	(3,237)	-0.3%
Total Allocated Indirect Costs excluding Depreciation	13,077,358	13,208,848	23.5%	131,490	1.0%
Total Allocated Indirect Depreciation Costs	152,451	152,451	0.3%	-	0.0%
Annual Implementation Cost Amortization	187,175	187,175	0.3%	-	0.0%
Total Annual Cost of Operations	50,681,506	49,987,544	89.0%	(693,962)	-1.4%
Profit	5,320,158	5,247,311	9.3%	(72,847)	-1.4%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	56,001,664	55,234,855	98.3%	(766,810)	-1.4%
Contractor Pass-Through Costs					
Interest Expense	1,629,656	1,306,716	2.3%	(322,940)	-19.8%
Interest Expense on Implementation Cost	53,748	43,030	0.1%	(10,718)	-19.9%
Contract Changes to Specific Agencies	(422,253)	(397,566)	-0.7%	24,687	-5.8%
Total Contractor Pass-Through Costs	1,261,152	952,180	1.7%	(308,971)	-24.5%
BASE CONTRACTOR'S COMPENSATION	57,262,816	56,187,035	100.0%	(1,075,781)	-1.9%
Other Adjustments					
Performance Incentives / Disincentives	26,604	(14,802)	0.0%	(41,405)	-155.6%
Total Other Adjustments	26,604	(14,802)	0.0%	(41,405)	-155.6%
TOTAL CONTRACTOR'S COMPENSATION	\$ 57,289,420	\$ 56,172,233	100.0%	\$ (1,117,186)	-2.0%

Table 4 below denotes the total cost adjustment to each cost category and the specific index prescribed in the Franchise Agreement(s).

Table 4 – Results of Cost Adjustments

Cost Category	Cost Adjustment	Index	Explanation
CBA Wages and Benefits (Drivers, Mechanics, Clerical)	1.75%	Index #1	The CBA wage & benefits adjustment is based on the change in a CPI Index.
Payroll Tax	1.75%	n/a	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes for 2017; therefore, the payroll tax expense changes in accordance with change in wages.
Worker's Compensation Insurance	1.32%	Index #2	The Worker's Comp Insurance adjustment is based on the change in a CPI Index.
Depreciation – Collection Vehicles	0.0%	n/a	No adjustment in 2017.
Depreciation - Containers	0.0%	n/a	No adjustment in 2017.
Non-CBA Labor	1.75%	Index #1	The Non-CBA Labor cost (management and supervisors) adjustment is based on the change in a CPI index.
Fuel	-38.27%	Index #3	The Fuel expense is adjusted by the change in a fuel index.
Other Indirect Cost	0.41%	Index #4	The Other Operating cost (insurance, general office expense, safety, etc.) is adjusted by 80% of a change in a CPI index.
Application of Index to the Cost Categories	Cost Adjustment	Reference	Specific Index Prescribed in the Franchise Agreement(s)
CBA & non-CBA Wages & Benefits	1.75%	Index #1	U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Service-Producing Industries (seasonally adjusted, total compensation, series no. cis201s000000000i successor to Ecs12102i ended 2005.
Worker's Compensation Insurance	1.32%	Index #2	U.S. Department of Labor, Bureau of Labor Statistics, Private Industry Employment Cost Index for Private Industry (Not seasonally adjusted, total compensation, series no. CIU2030000000000A).
Fuel	-38.27%	Index #3	U.S. Department of Labor, Bureau of Labor Statistics, Producer Price Index - Commodity Index for #2 diesel fuel (not seasonally adjusted, fuels and related products and power, series no. wpu057303).
Other Operating Expense	0.41%	Index #4	U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, U.S. city average (not seasonally adjusted, all items, base period: 1982-84=100, series no. cuur0000sao).

3.C Recommended Adjustment to Recology's Compensation for 2017

Based on the net results of the compensation adjustments previously described and the analysis of the 2017 Recology Compensation Application, SBWMA is recommending that the SBWMA Board approve an adjustment to Recology's 2017 compensation as delineated in **Table 5 – Comparison of 2016 and 2017 Compensation**. The total adjustment to Recology's contractor's compensation is a 2.0% reduction.

Table 5 – Comparison of 2016 and 2017 Compensation

RECOLOGY COMPENSATION SUMMARY	2016 Cost	2017 Cost	% of Total Cost	\$ Change	% Change
Total Annual Cost of Operations	50,681,506	49,987,543	89.0%	(693,963)	-1.4%
Profit	5,320,158	5,247,311	9.3%	(72,847)	-1.4%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	56,001,664	55,234,855	98.3%	(766,810)	-1.4%
Contractor Pass-Through Costs					
Interest Expense	1,629,656	1,306,716	2.3%	(322,940)	-19.8%
Interest Expense on Implementation Cost	53,748	43,030	0.1%	(10,718)	-19.9%
Contract Changes to Specific Agencies	(422,253)	(397,566)	-0.7%	24,687	-5.8%
Total Contractor Pass-Through Costs	1,261,152	952,180	1.7%	(308,971)	-24.5%
BASE CONTRACTOR'S COMPENSATION	57,262,816	56,187,035	100.0%	(1,075,781)	-1.9%
Other Adjustments					
Performance Incentives / Disincentives	26,604	(14,802)	0.0%	(41,405)	-155.6%
Total Other Adjustments	26,604	(14,802)	0.0%	(41,405)	-155.6%
TOTAL CONTRACTOR'S COMPENSATION	\$57,289,420	\$56,172,233	100.0%	\$(1,117,186)	-2.0%

Note: Includes Agency specific contract changes (Hillsborough, Menlo Park, San Carlos).

3.D Recology Cost Allocation Process by Member Agency

Section 3 of the Recology Compensation Application describes how compensation is allocated to each Member Agency after the total compensation is adjusted. Article 11 and Attachment K of the Franchise Agreements prescribe the process to allocate the company's compensation equitably across the Member Agencies. Nine cost categories across seventeen lines of business are allocated to each Member Agency by four agency specific operational statistics. These four operational statistics are:

1. Annual route labor hours
2. Annual route hours
3. Number of containers in service
4. Number of customer accounts serviced

The statistics used to allocate costs for 2017 are based on operational metrics compiled for each Member Agency by Recology in April/May 2016. The cost allocation process is similar to the process used under the previous contract with Allied Waste/Republic Services.

While the services provided by Recology are uniform across the Member Agencies, the cost to provide these services vary by Member Agency based on topography, housing density, traffic patterns, and customer

subscription levels, etc. For these reasons, the cost to provide service is reallocated annually to the individual Member Agencies based on current operational metrics.

The metric used by Recology to allocate costs for the Venues and Events line of business across the Member Agencies, is different than that prescribed in the Franchise Agreements. Recology and the SBWMA agree that if the method prescribed for this line of business were used, the allocation of these costs would not be equitable. Thus, the company has allocated these specific costs based on the number of single-family accounts in service and not the route labor hours or route hours expended to provide this service during April/May when the operational metrics are compiled. This approach was approved by the Board and has been applied to the compensation adjustment since Rate Year Two (2012). For 2017, it applies to approximately 0.1% of the total base compensation.

3.E Results of Cost Allocation

The cost allocation by Member Agency for each cost category and the total contractor's compensation is provided in **Table 6 – Member Agency Cost Allocation**. The cost allocation by line of business (Residential, Commercial/MFD and Agency Facility) for each Member Agency is found in Recology's Compensation Application as Appendix 3-3, 3-4 and 3-5.

Table 6 – Member Agency Cost Allocation

BASE COLLECTION COSTS	2017 Costs													
	2017 Total	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County
Annual Cost of Operations														
Direct Labor-Related Costs														
Wages for CBAs	\$16,758,609	\$420,867	\$1,078,866	\$1,692,726	\$666,237	\$991,125	\$723,462	\$1,650,604	\$523,679	\$2,941,239	\$1,444,583	\$3,733,043	\$275,629	\$616,549
Benefits for CBAs	\$6,669,971	\$169,393	\$429,051	\$660,417	\$267,203	\$393,702	\$292,655	\$654,482	\$210,298	\$1,173,349	\$573,498	\$1,485,021	\$111,152	\$249,749
Payroll Taxes	\$1,394,316	\$35,016	\$89,762	\$140,835	\$55,431	\$82,462	\$60,192	\$137,330	\$43,570	\$244,711	\$120,189	\$310,589	\$22,932	\$51,297
Workers Compensation Insurance	\$1,471,775	\$36,961	\$94,748	\$148,658	\$58,510	\$87,043	\$63,536	\$144,959	\$45,991	\$258,305	\$126,866	\$327,844	\$24,206	\$54,147
Total Direct Labor Related-Costs	\$26,294,671	\$662,238	\$1,692,426	\$2,642,636	\$1,047,381	\$1,554,332	\$1,139,844	\$2,587,375	\$823,538	\$4,617,605	\$2,265,136	\$5,856,497	\$433,920	\$971,742
Direct Fuel Costs	\$2,066,892	\$56,537	\$129,454	\$191,387	\$86,390	\$123,177	\$99,168	\$216,105	\$63,520	\$359,861	\$185,197	\$441,601	\$35,909	\$78,588
Other Direct Costs	\$2,178,164	\$57,439	\$136,843	\$208,436	\$90,102	\$129,377	\$100,097	\$229,317	\$66,207	\$379,923	\$195,007	\$468,399	\$36,697	\$80,322
Depreciation														
- Collection Vehicles	\$4,016,792	\$113,691	\$249,166	\$366,182	\$166,396	\$242,372	\$194,288	\$436,745	\$120,140	\$696,311	\$365,299	\$842,774	\$69,867	\$153,560
- Containers	\$1,882,550	\$58,597	\$123,181	\$163,868	\$84,106	\$117,380	\$59,190	\$181,675	\$58,429	\$335,090	\$169,003	\$413,342	\$36,548	\$82,141
Total Depreciation	\$5,899,342	172,288	372,347	\$530,050	250,502	359,752	253,478	618,420	178,569	1,031,401	534,302	1,256,116	106,415	235,701
Allocated Indirect Costs														
General and Administrative	\$7,267,914	\$113,573	\$446,104	\$685,412	\$358,017	\$449,850	\$170,253	\$757,727	\$214,087	\$1,357,211	\$690,854	\$1,636,994	\$114,123	\$273,710
Operations	\$1,787,232	\$52,035	\$111,906	\$174,489	\$71,975	\$108,800	\$87,497	\$192,275	\$50,430	\$301,964	\$162,454	\$374,666	\$31,362	\$67,378
Vehicle Maintenance	\$3,106,609	\$90,448	\$194,517	\$303,301	\$125,109	\$189,119	\$152,090	\$334,217	\$87,658	\$524,882	\$282,381	\$651,254	\$54,514	\$117,118
Container Maintenance	\$1,047,093	\$24,878	\$65,058	\$99,236	\$49,306	\$67,621	\$26,046	\$114,757	\$30,172	\$186,529	\$95,334	\$233,163	\$16,742	\$38,252
Total Allocated Indirect Costs	\$13,208,848	\$280,934	\$817,585	\$1,262,438	\$604,408	\$815,390	\$435,885	\$1,398,977	\$382,346	\$2,370,585	\$1,231,023	\$2,896,077	\$216,742	\$496,459
Total Allocated Indirect Depreciation Costs	\$152,451	\$4,417	\$9,481	\$15,052	\$6,230	\$9,329	\$7,429	\$16,399	\$4,244	\$25,882	\$13,763	\$31,843	\$2,650	\$5,732
Annual Implementation Cost Amortization	\$187,175	\$5,605	\$11,282	\$17,229	\$8,202	\$10,832	\$9,881	\$19,083	\$5,637	\$33,028	\$16,147	\$39,014	\$3,423	\$7,722
Total Annual Cost of Operations ³	\$49,987,543	1,239,457	3,169,418	4,867,228	2,093,304	3,002,189	2,045,784	5,085,676	1,524,061	8,818,285	4,440,575	10,989,546	835,755	1,876,266
Profit	\$5,247,311	\$130,109	\$332,701	\$510,924	\$219,739	\$315,147	\$214,751	\$533,855	\$159,984	\$925,676	\$466,138	\$1,153,599	\$87,731	\$196,956
Operating Ratio	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%
Total Operating Cost	\$55,234,855	\$1,369,566	\$3,502,120	\$5,378,152	\$2,313,043	\$3,317,336	\$2,260,535	\$5,619,532	\$1,684,045	\$9,743,961	\$4,906,712	\$12,143,145	\$923,487	\$2,073,222
Contractor Pass-Through Costs														
Interest Expense	\$1,306,716	\$34,910	\$82,380	\$123,300	\$54,949	\$79,811	\$50,721	\$139,463	\$39,995	\$229,463	\$118,989	\$282,123	\$22,042	\$48,570
Interest Expense on Implementation Cost	\$43,030	\$1,141	\$2,595	\$4,291	\$1,898	\$2,489	\$1,981	\$4,382	\$1,326	\$7,739	\$3,680	\$9,180	\$719	\$1,608
Contract Changes to Specific Agencies	(\$397,566)	\$0	\$0	\$0	\$0	\$0	(\$416,528)	\$24,529	\$0	(\$5,567)	\$0	\$0	\$0	\$0
BASE COMPENSATION	\$56,187,035	\$1,405,617	\$3,587,095	\$5,505,743	\$2,369,890	\$3,399,636	\$1,896,710	\$5,787,906	\$1,725,366	\$9,981,163	\$5,023,815	\$12,434,448	\$946,247	\$2,123,400
Incentives and Disincentives	(\$14,802)	(\$212)	(\$698)	(\$1,602)	(\$1,139)	(\$961)	(\$237)	(\$1,199)	(\$399)	(\$3,003)	(\$1,212)	(\$3,439)	(\$300)	(\$403)
Total Contractor Adjustments	(\$14,802)	(\$212)	(\$698)	(\$1,602)	(\$1,139)	(\$961)	(\$237)	(\$1,199)	(\$399)	(\$3,003)	(\$1,212)	(\$3,439)	(\$300)	(\$403)
TOTAL CONTRACTOR'S COMPENSATION	\$56,172,233	\$1,405,405	\$3,586,397	\$5,504,141	\$2,368,751	\$3,398,675	\$1,896,473	\$5,786,707	\$1,724,967	\$9,978,160	\$5,022,603	\$12,431,009	\$945,948	\$2,122,997
Prior Year's Surplus/Shortfall to/from Recology														
Revenue Reconciliation 2015 (Surplus)/Shortfall	(\$121,886)	(\$279,189)	\$1,077,592	\$5,222	\$3,928	(\$90,181)	(\$505,776)	\$271,779	\$10,259	(\$217,044)	(\$101,381)	(\$50,651)	(\$35,586)	(\$210,858)
Interest on 2015 (Surplus)/Shortfall	\$74,320	\$0	\$68,696	\$0	\$0	\$0	\$0	\$5,624	\$0	\$0	\$0	\$0	\$0	\$0
Sub-Total	(\$47,566)	(\$279,189)	\$1,146,288	\$5,222	\$3,928	(\$90,181)	(\$505,776)	\$277,403	\$10,259	(\$217,044)	(\$101,381)	(\$50,651)	(\$35,586)	(\$210,858)
TOTAL BALANCE TO CONTRACTOR 2017	\$56,124,667	\$1,126,216	\$4,732,685	\$5,509,363	\$2,372,679	\$3,308,494	\$1,390,697	\$6,064,110	\$1,735,226	\$9,761,116	\$4,921,222	\$12,380,358	\$910,362	\$1,912,139
TOTAL BALANCE TO CONTRACTOR - 2016	\$54,311,100	\$557,860	\$4,181,830	\$4,562,444	\$2,311,315	\$3,536,718	\$1,511,109	\$6,150,398	\$1,663,680	\$8,928,290	\$4,691,004	\$12,956,408	\$979,947	\$2,280,097
Change in Contractor's Compensation	\$1,813,568	\$568,356	\$550,855	\$946,919	\$61,364	(\$228,224)	(\$120,412)	(\$86,288)	\$71,546	\$832,826	\$230,218	(\$576,050)	(\$69,585)	(\$367,958)
Percentage Change in Compensation	3.34%	101.88%	13.17%	20.75%	2.65%	-6.45%	-7.97%	-1.40%	4.30%	9.33%	4.91%	-4.45%	-7.10%	-16.14%

³ Costs do not reflect any Agency directed changes in service.

SECTION 4 2017 MEMBER AGENCY REVENUE REQUIREMENT OBLIGATIONS

4.A Components of Member Agency Revenue Requirement

The compensation to Recology for 2017 collection service is only one of several components that make up the total collection cost reflected in the Member Agency's solid waste collection rates. In addition to the Recology compensation for collection service, there are pass-through costs (discussed below) that are also included in the Member Agency's Revenue Requirement (see **Table 8 – Total Collection Rate Adjustment**).

4.B Pass-Through Costs

The pass-through costs are the following:

1. Disposal and processing expense – Disposal and processing expenses are based on projected tonnage and estimated 2017 tip fees at the Shoreway Environmental Center. Tonnage assumptions were provided to Member Agencies on July 25 with any comments due back on August 7.
2. Franchise fee – Franchise and other Member Agency fees and programs (e.g., WM Curbside, Door-to-Door HHW Collection Service). Fee assumptions used for 2017 were provided by Member Agencies on July 10.
3. Agency specific changes – Agency specific changes made in 2011 to the Franchise Agreements are noted and applied to each Member Agency. These changes were: Recology billing service for Menlo Park, credit for Hillsborough purchase of organics carts and reduced cost for back yard service, and a credit for San Carlos for City-purchased kitchen pails.

4.C Cost Variance from 2016 to 2017

The variance in Total Revenue Requirement from 2016 to 2017 is shown in **Table 7** by cost category and the rate impact of each change. The 2017 total collection cost which includes the Recology compensation and other pass-through costs shows an average SBWMA rate reduction of 1.4%. This rate adjustment can be further broken down into the following individual components:

1. The 2017 projected revenue before 2017 rate increases of \$98,861,313 is compared to the current estimated revenue requirement for 2016 (i.e., \$98,919,750). This shows a base revenue surplus of \$501,573 due to revenue exceeding the 2016 base total cost. Rates could decrease by 0.5% due to this surplus.
2. Recology Base Compensation decreased \$1,100,469 or 1.9% from 2016 compensation.
3. Incentive payments owed to Recology for 2015 decreased by \$41,405 or 155.6% from 2014.
4. The net compensation due to Recology decreased \$1,117,186 from 2016 with an estimated rate impact of a 2.0% decrease.
5. Disposal and Processing Fees at Shoreway increased by 10.6% or \$10.00/ton for franchised tons due to tip fee increases budgeted for 2017 with a rate impact of 2.8%. Tonnages are estimated to be the same as 2016.
6. Total Member Agency fees increased slightly from the prior year (i.e., 1.0% increase) and reflect feedback received from each Member Agency.

The variance summary for each Member Agency is contained in **Appendix D** and will vary in accordance with the specific circumstances for each Member Agency. The issues that may affect Member Agencies include: fluctuations in revenue, changes in Recology's cost allocation, changes in Member Agency fees

and changes in collected tons. For the details on operational statistics and compensation by Member Agency, including year over year changes, please refer to Part II section 1 of Recology's Application.

Table 7 – Recology and Other Pass-Through Costs Variance and Rate Adjustment

COLLECTION RATE VARIANCE ANALYSIS <small>estimated 8/12/2016</small>		SBWMA TOTAL				
		2017 Variance				
		2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)			\$ 98,861,313			
Projected Collection Revenue (After Rate Increase)		\$ 98,919,750				
2016 Base Revenue Surplus / <Shortfall>				\$501,573		-0.5%
Total Contractor's Compensation						
	Base Compensation	\$ 57,685,069	\$ 56,584,600	\$ (1,100,469)	-1.9%	-1.1%
	Agency Specific Contract Changes	\$ (422,253)	\$ (397,566)	\$ 24,687	-5.8%	0.0%
	Incentives / Disincentives	\$ 26,604	\$ (14,802)	\$ (41,405)	-155.6%	0.0%
Total Contractor's Compensation		\$ 57,289,420	\$ 56,172,233	\$ (1,117,186)	-2.0%	-1.1%
Pass-Through Costs						
	Disposal & Processing Fees	\$ 26,633,767	\$ 29,450,676	\$ 2,816,909	10.6%	2.8%
	Agency Franchise & Other Fees	\$ 14,436,554	\$ 14,577,002	\$ 140,449	1.0%	0.1%
Subtotal Pass-Through Costs		\$ 41,070,321	\$ 44,027,679	\$ 2,957,358	7.2%	3.0%
TOTAL REVENUE REQUIREMENT		\$ 98,359,740	\$ 100,199,912	\$ 1,840,172	1.9%	1.9%
2016 Estimated Surplus / <Shortfall>		\$ 560,010				
2017 Estimated Surplus / <Shortfall>			\$ (1,338,598)			
Required Revenue Adjustment			1.4%			1.4%

All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.

4.D Total Recommended Rate Adjustment

The SBWMA is responsible for compiling all the components that make up the recommended rate adjustment for 2017 and are summarized in **Table 8**. The amounts shown in Table 8 reflect estimated balances at December 31, 2017 before any 2017 Member Agency solid waste rate adjustments are applied. The purpose of this table is to assist Member Agencies with determining their rate adjustment(s) for 2017. The recommended rate adjustment is derived from comparing the 2017 base revenue at 2016 rates (i.e., \$98,861,313) on line **A.1** to the total revenue impact on line **F.1** (i.e., \$97,858,710), which in total results in a surplus balance of \$1,002,603 on line **F.2** and a 1.0% recommended rate reduction (line **F.3**). The following provides an explanation of the sections in **Table 8**.

- **Section A** – This section provides the estimated 2017 Collection Revenue using 2016 rates (**A.1**), the 2017 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2017 Revenue Requirement (**A.7**), the estimated 2017 Surplus/Shortfall balance with Recology (**A.8**), Agency Fees on shortfalls (**A.9**), and the Rate Adjustment Percentage (**A.10**). *The total SBWMA rate adjustment is positive 1.5%.*
- **Section B** – This section provides the results of the 2015 Recology Revenue Reconciliation surplus/shortfall that must be added to the 2017 rate adjustment. *There is no associated rate adjustment in total, but each Member Agency has an adjustment.*
- **Section C** – This section provides the 2017 Required Rate Adjustment which is the sum of sections A and B. **The total SBWMA rate adjustment is positive 1.5%.**
- **Section D** – This section provides the “2016 Estimated Surplus/Shortfall” balance with Recology (**D.1**) and the associated Agency Fees on this amount (**D.2**). Also in this section is the final 2014 surplus/shortfall (**D.3**) which would have been included in the 2016 rate adjustment and the total estimated surplus for all SBWMA Member Agencies which totals \$3,523,537 (**D.4**). The 2016 Revenue Reconciliation will be finalized in 2017, similar to how the 2015 Revenue Reconciliation was finalized in 2016.
- **Section E** – This section provides the amount of year-to-date (YTD) surplus balances (**E.1**) which Member Agencies have requested Recology to refund (i.e., Atherton, Burlingame, Redwood City and West Bay Sanitary District), and the amount of YTD shortfall payments (**E.2**) which Member Agencies (i.e., Menlo Park) have paid to Recology. It also includes an adjustment for Belmont’s unique agreement with Recology.
- **Section F** – This section provides the “Total Rate Adjustment” and the cumulative surplus/shortfall of \$1,002,603 (**F.2**) which includes the result of Sections D and E. **The total SBWMA recommended rate adjustment is a decrease of 1.0% (F.3). The Member Agencies are obligated to set rates to generate the revenue needed as denoted in Section F per the MOU between Recology and SBWMA. Agencies that set rates lower than delineated in Section F and experience a shortfall in revenue are liable for future interest charges from Recology.**

Table 8 – Total Collection Rate Adjustment (Part 1 of 2)

SBWMA									
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY									
2017 Rate Year									
	2017 Total	Atherton	Belmont	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park	
A. 2017 RATE YEAR									
A.1 2017 Collection Revenue @ 2016 Rates	\$ 98,861,313	\$ 3,097,872	\$ 6,516,852	\$ 10,655,270	\$ 4,537,544	\$ 5,559,729	\$ 3,134,788	\$ 10,164,462	
A.2 Total Recology Compensation	\$ 56,172,233	\$ 1,405,405	\$ 3,586,397	\$ 5,504,141	\$ 2,368,751	\$ 3,398,675	\$ 1,896,473	\$ 5,786,707	
A.3 Pass-Through Costs									
A.4 Disposal & Processing Fees	\$ 29,450,676	\$ 1,012,566	\$ 1,548,178	\$ 3,341,208	\$ 1,680,836	\$ 1,727,557	\$ 757,436	\$ 3,123,638	
A.5 Agency Franchise Fees	\$ 14,577,002	\$ 330,949	\$ 1,762,324	\$ 1,954,000	\$ 868,942	\$ 407,275	\$ 305,190	\$ 1,697,059	
A.6 Total Pass-Through Costs	\$ 44,027,679	\$ 1,343,515	\$ 3,310,502	\$ 5,295,208	\$ 2,549,778	\$ 2,134,831	\$ 1,062,626	\$ 4,820,697	
A.7 2017 REVENUE REQUIREMENT	\$ 100,199,912	\$ 2,748,920	\$ 6,896,899	\$ 10,799,349	\$ 4,918,529	\$ 5,533,506	\$ 2,959,099	\$ 10,607,404	
A.8 Surplus/(Shortfall) estimated	\$ (1,338,599)	\$ 348,951	\$ (380,047)	\$ (144,079)	\$ (380,984)	\$ 26,223	\$ 175,689	\$ (442,942)	
A.9 Agency Fees on A.8	\$ (161,296)	\$ 0	\$ 0	\$ (23,053)	\$ (36,336)	\$ 0	\$ 0	\$ (57,582)	
A.10 Rate Adjustment Percentage <i>(See Rate Variance Analysis for detail.)</i>	1.5%	-11.3%	5.8%	1.6%	9.2%	-0.5%	-5.6%	4.9%	
B. 2015 Final Surplus/(Shortfall)									
B.1 Surplus/<Shortfall> , incl Interest	\$ 47,566	\$ 279,189	\$ (1,146,288)	\$ (5,222)	\$ (3,928)	\$ 90,181	\$ 505,776	\$ (277,403)	
B.2 Agency Fees on B.1	\$ (37,785)	\$ 0	\$ 0	\$ (836)	\$ (375)	\$ 0	\$ 0	\$ (36,062)	
B.3 Rate Adjustment Percentage	0.0%	-9.0%	17.6%	0.1%	0.1%	-1.6%	-16.1%	3.1%	
C. 2017 REQUIRED REVENUE ADJUSTMENT									
C.1 Cumulative Revenue Requirement (A7-B1-B2)	\$ 100,351,428	\$ 2,469,731	\$ 8,043,187	\$ 10,828,459	\$ 4,959,168	\$ 5,443,325	\$ 2,453,323	\$ 10,978,452	
C.2 SubTotal Surplus/(Shortfall) (A8+A9+B1+B2)	\$ (1,490,115)	\$ 628,140	\$ (1,526,335)	\$ (173,189)	\$ (421,623)	\$ 116,404	\$ 681,465	\$ (813,990)	
C.3 Rate Adjustment Percentage	1.5%	-20.3%		1.6%	9.3%	-2.1%	-21.7%	8.0%	
D. 2016 Estimated Surplus/(Shortfall)									
D.1 Surplus/(Shortfall), 2016 estimated	\$ 560,010	\$ 391,259	\$ (363,090)	\$ (87,888)	\$ (168,006)	\$ 209,322	\$ 182,500	\$ (308,685)	
D.2 Agency Fees on D.1	\$ (70,215)	\$ 0	\$ 0	\$ (14,062)	\$ (16,024)	\$ 0	\$ 0	\$ (40,129)	
D.3 Surplus/(Shortfall), 2014 FINAL (incl. Interest)	\$ 3,033,742	\$ 895,936	\$ (481,671)	\$ 1,223,751	\$ 81,081	\$ (165,807)	\$ 448,106	\$ (176,439)	
D.4 Net 2014 / 2016 Surplus/(Shortfall)	\$ 3,523,537	\$ 1,287,195	\$ (844,761)	\$ 1,121,801	\$ (102,948)	\$ 43,515	\$ 630,606	\$ (525,253)	
D.5 Rate Adjustment Percentage	-3.6%	-41.6%	13.0%	-10.5%	2.3%	-0.8%	-20.1%	5.2%	
E. Adjustments									
E.1 Adjustments, refund of surplus balance, etc.	\$ (3,761,914)	\$ (1,175,125)	\$ 0	\$ (1,223,751)	\$ 0	\$ 0	\$ 0	\$ 0	
E.2 Shortfall Payments	\$ 2,731,095	\$ 0	\$ 2,371,095	\$ 0	\$ 0	\$ 0	\$ 0	\$ 360,000	
F. TOTAL RATE IMPACT (F+G)									
F.1 TOTAL REVENUE ADJUSTMENT	\$ 97,858,710	\$ 2,357,662	\$ 6,516,852	\$ 10,930,410	\$ 5,062,116	\$ 5,399,810	\$ 1,822,717	\$ 11,143,705	
F.2 Total Surplus/(Shortfall) w/Recology	\$ 1,002,603	\$ 740,210	\$ (0)	\$ (275,139)	\$ (524,572)	\$ 159,919	\$ 1,312,071	\$ (979,243)	
F.3 Total Rate Adjustment Percentage	-1.0%	-23.9%	0.0%	2.6%	11.6%	-2.9%	-41.9%	9.6%	

Table 8 – Total Collection Rate Adjustment (Part 2 of 2)

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
2017 Rate Year							
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total	
A. 2017 RATE YEAR							
A.1	2017 Collection Revenue @ 2016 Rates	\$ 2,716,649	\$ 18,269,382	\$ 8,121,499	\$ 21,404,288	\$ 1,477,604	\$ 3,205,374
A.2	Total Recology Compensation	\$ 1,724,967	\$ 9,978,160	\$ 5,022,603	\$ 12,431,009	\$ 945,948	\$ 2,122,997
A.3 Pass-Through Costs							
A.4	Disposal & Processing Fees	\$ 898,175	\$ 5,748,005	\$ 2,129,785	\$ 6,222,719	\$ 411,227	\$ 849,347
A.5	Agency Franchise Fees	\$ 145,874	\$ 2,642,095	\$ 1,088,871	\$ 3,096,525	\$ 96,594	\$ 181,305
A.6	Total Pass-Through Costs	\$ 1,044,049	\$ 8,390,100	\$ 3,218,656	\$ 9,319,243	\$ 507,821	\$ 1,030,652
A.7	2017 REVENUE REQUIREMENT	\$ 2,769,016	\$ 18,368,260	\$ 8,241,259	\$ 21,750,252	\$ 1,453,769	\$ 3,153,649
A.8	Surplus/(Shortfall) estimated	\$ (52,367)	\$ (98,878)	\$ (119,760)	\$ (345,964)	\$ 23,834	\$ 51,725
A.9	Agency Fees on A.8	\$ (2,618)	\$ (13,497)	\$ (14,371)	\$ (13,839)	\$ 0	\$ 0
A.10	Rate Adjustment Percentage	2.0%	0.6%	1.7%	1.7%	-1.6%	-1.6%
<i>(See Rate Variance Analysis for detail.)</i>							
B. 2015 Final Surplus/(Shortfall)							
B.1	Subtotal Year Surplus/<Shortfall> , incl Interest	\$ (10,259)	\$ 217,044	\$ 101,381	\$ 50,651	\$ 35,586	\$ 210,858
B.2	Agency Fees on B.1	\$ (513)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
B.3	Rate Adjustment Percentage	0.4%	-1.2%	-1.2%	-0.2%	-2.4%	-6.6%
C. 2017 REQUIRED REVENUE ADJUSTMENT							
C.1	Cumulative Revenue Requirement (A7-B1-B2))	\$ 2,782,407	\$ 18,164,713	\$ 8,154,249	\$ 21,713,440	\$ 1,418,183	\$ 2,942,791
C.2	SubTotal Surplus/(Shortfall) (A8+A9+B1+B2)	\$ (65,757)	\$ 104,670	\$ (32,750)	\$ (309,152)	\$ 59,420	\$ 262,583
C.3	Rate Adjustment Percentage	2.4%	-0.6%	0.4%	1.4%	-4.0%	-8.2%
D. 2016 Estimated Surplus/(Shortfall)							
D.1	Surplus/(Shortfall), 2016 estimated	\$ 5,322	\$ 233,690	\$ 131,160	\$ 200,349	\$ 294	\$ 133,782
D.2	Agency Fees on D.1	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
D.3	Surplus/(Shortfall), 2014 FINAL (incl. Interest)	\$ 83,311	\$ 1,294,907	\$ 328,781	\$ (378,002)	\$ 32,545	\$ (152,757)
D.4	Net 2014 / 2016 Surplus/(Shortfall)	\$ 88,633	\$ 1,528,597	\$ 459,941	\$ (177,653)	\$ 32,839	\$ (18,975)
D.5	Rate Adjustment Percentage	-3.3%	-8.4%	-5.7%	0.8%	-2.2%	0.6%
E. Adjustments							
E.1	Adjustments, refund of surplus balance, etc.		\$ (1,294,907)			\$ (68,131)	
E.2	Shortfall Payment						
F. TOTAL RATE IMPACT (F+G)							
F.1	TOTAL REVENUE ADJUSTMENT	\$ 2,693,774	\$ 17,931,022	\$ 7,694,308	\$ 21,891,093	\$ 1,453,475	\$ 2,961,766
F.2	Total Year Surplus/(Shortfall)	\$ 22,875	\$ 338,360	\$ 427,191	\$ (486,805)	\$ 24,129	\$ 243,608
F.3	Total Rate Adjustment Percentage	-0.8%	-1.9%	-5.3%	2.3%	-1.6%	-7.6%

SECTION 5 CONCLUSION

The SBWMA's review of the 2017 Recology Compensation Application results in the recommendation to decrease the 2017 compensation to Recology (i.e., Total Contractor's Compensation) by 2.0% (i.e., \$1,117,186) from the approved 2016 compensation, as provided in **Tables 2, 3, 5, 6, 7 and 8** of this Final Report, and Tables A, B and E in Recology's Application.

The Member Agency snapshot report prepared by the SBWMA, and updated by Recology annually, can be found in the Recology Application as Appendix 3. Each snapshot report includes six tables for each Member Agency including: 1) a three year summary of major statistics used to allocate costs; 2) detailed comparison of Recology costs for 2017 vs. 2016; 3) detailed cost comparison of 2017 vs. 2016 by Recology service sectors; and, 4) three tables showing the actual cost allocation process by service sector and the seventeen lines of business.

APPENDIX A

RECOLOGY 2017 COMPENSATION
APPLICATION ISSUED ON
AUGUST 10, 2016 REFLECTING
REDLINE CHANGES FROM THE
VERSIONS SUBMITTED ON
JUNE 15, 2016 AND JULY 22, 2016
(PART I NARRATIVE
SECTIONS 1 – 4 ONLY)

SBWMA FINAL REPORT REVIEWING
THE RECOLOGY 2017
COMPENSATION APPLICATION

September 15, 2016

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EXECUTIVE SUMMARY

Overview of the Application

Recology San Mateo County (Recology) is pleased to submit our 2017 Application for a Contractor's Compensation Adjustment per Section 11.04 of the Franchise Agreements with the twelve South Bayside Waste Management Authority (SBWMA) Member Agencies. The format of this Application is similar to the prior year submittals, which had been modified, with the assistance of the SBWMA and feedback from Board members, in an effort to provide a more user friendly and easier to understand Application.

Prior year feedback received identified that the Application would be best presented in two parts. Part I is made up of the report summarizing the components of the Calculation of Contractor's Compensation, the supporting tables and charts and describing identified cost allocation variances. Part 2 is made up of the source files and contains the data used to create the Application as well as other specific data identified in Article 11 of the Franchise Agreement as required information needed to be included in the Application.

Section 1 of this Application (Calculation of Contractor's Compensation for the 2017 Rate Year and Variance Analysis) explains the first step in calculating the annual adjustment to Recology's compensation. This section provides the results of our calculations and explains how the base compensation is adjusted using the indices prescribed in the Franchise Agreements. Also included are explanations on special issues such as Incentive and Disincentive payments and sections pertaining to several Member Agencies that have unique cost adjustments.

Section 2 (Annual 2015 Revenue Reconciliation) details the annual process to determine what net revenue Recology retained in compensation versus the amount actually owed to the company. This reconciliation of revenues billed by Recology calculates the surplus or shortfall due to/from each Member Agency for 2015.

Section 3 (Allocation of Costs to the Member Agencies) explains the second step in the compensation adjustment process which is to allocate contractor's compensation across all Member Agencies equitably as prescribed in the Franchise Agreements. This section provides the details of the operational metrics used to allocate costs, the results of the cost allocation and explanations for jurisdictions with allocation changes of 3% or more.

Section 4 (Cost Adjustment Calculations in Total and by Member Agency) consists of several Appendices which provide statistical tables and various cost adjustment tables. These tables provide a summary of the detailed calculations and steps taken to derive the compensation adjustment for 2017 by Member Agency.

Results of Index and Non-Indexed Based Cost Adjustments (Section 1)

Section 1 provides the results of the index and non-index based cost adjustments for the ten cost categories which ranged from -38.3% (i.e., Fuel) to a 1.8% increase (i.e., Wages for CBAs). The changes for the ten cost categories can be seen on **Table C**, page 9. The total adjustment for index-based cost adjustments is a 1.4% decrease in compensation before interest and incentives/disincentives adjustments.

Specific Issues for 2017 (Section 1)

Section 1.2 describes the specific issues for 2017 which include a calculation of performance incentives and disincentives. The net performance disincentive payment is calculated at **\$11,706,14,802**. The Member Agency specific issues are discussed in detail in Section 1.3.

Results of the 2015 Revenue Reconciliation (Section 2)

Recology issued its 2015 Revenue Reconciliation Report to the SBWMA and its Member Agencies on March 31, 2016, per Section 11.03 of the Franchise Agreement(s). The Revenue Reconciliation compares the amount owed to Recology to the amount paid to Recology by Member Agency. The result was a **surplusshortfall** due ~~from~~ Recology of **\$121,8869,328** in 2015 before adjustment for interest. The impact across the Member Agencies ranged from shortfalls in the Cities of Belmont of \$1,077,592 and Menlo Park of **\$271,77988,218** to a surplus in the Town of Hillsborough of \$505,776. The following table provides the results of the 2015 Revenue Reconciliation. Please note that the detailed Revenue Reconciliation information is provided in **Table H** on page 22.

<u>Member Agency</u>	<u>2015 Surplus or (Shortfall)</u>	<u>Interest Due (to)/from Recology</u>	<u>Total</u>
Atherton	\$0	\$0	\$0
Belmont	(\$1,077,592)	(\$68,696)	(\$1,146,288)
Burlingame	(\$5,222)	\$0	(\$5,222)
East Palo Alto	(\$3,928)	\$0	(\$3,928)
Foster City	\$90,181	\$0	\$90,181
Hillsborough	\$505,776	\$0	\$505,776
Menlo Park	(\$88,218)	(\$5,624)	(\$93,842)
North Fair Oaks	(\$10,259)	\$0	(\$10,259)
Redwood City	\$217,044	\$0	\$217,044
San Carlos	\$101,381	\$0	\$101,381
City of San Mateo	\$50,651	\$0	\$50,651
West Bay Sanitary District	\$0	\$0	\$0
County of San Mateo	\$210,858	\$0	\$210,858
Total	(\$9,328)	(\$74,320)	(\$83,648)

Results of the 2017 Cost Allocation (Section 3)

Section 3 provides the details of the allocation of total Contractor collection costs to the Member Agencies. This cost allocation process resulted in year-over-year variances (Variance % column) ranging from an increase in Foster City of 2.97% (\$97,958) to a decrease in West Bay Sanitary District of 4.61% (-\$45,732). It is important to note that each Member Agency total allocation percentage change (Difference % column) changed by less than three-tenths of 1 percent from the prior year. The biggest factor of the cost allocation is driver hours attributed to each Member Agency which can fluctuate for a variety of reasons. The following table provides the percentage and dollar variance in the allocation of total compensation for 2017 compared to 2016.

Percentage of Total Contractor's Compensation					
Total Cost Allocation					
	2016	2017	Difference %	Variance %	Difference \$
Atherton	2.52%	2.48%	-0.03%	-1.33%	\$ (18,877)
Belmont	6.41%	6.34%	-0.07%	-1.05%	\$ (38,056)
Burlingame	10.01%	9.73%	-0.28%	-2.84%	\$ (160,910)
East Palo Alto	4.14%	4.19%	0.05%	1.16%	\$ 27,141
Foster City	5.83%	6.01%	0.17%	2.97%	\$ 97,958
Hillsborough	4.16%	4.09%	-0.07%	-1.66%	\$ (39,008)
Menlo Park	10.30%	10.19%	-0.11%	-1.11%	\$ (64,777)
North Fair Oaks	3.02%	3.05%	0.03%	0.83%	\$ 14,190
Redwood City	17.70%	17.64%	-0.06%	-0.32%	\$ (31,622)
San Carlos	8.70%	8.89%	0.19%	2.16%	\$ 106,336
San Mateo	21.77%	21.97%	0.20%	0.93%	\$ 114,357
West Bay Sanitary	1.75%	1.67%	-0.08%	-4.61%	\$ (45,732)
County of San Mateo	3.68%	3.75%	0.07%	1.87%	\$ 38,999
Totals	100%	100%	0.00%	N/A	\$ 0
Note: Dollar difference amounts in parentheses are a reduction in total cost allocation.					
Year 2016 and 2017 percentages are shown rounded to two decimal places.					

2017 Total Adjustment to Contractor's Compensation (Section 4)

The calculated adjustment for the Total Contractor's Compensation for Rate Year 2017 decreased by \$1,~~114,090~~117,186 or -4.92.0% compared to the compensation approved for 2016. This total contractor's compensation adjustment for the SBWMA service area as a whole is summarized in the table on the next page.

	Compensation - 2016	Compensation - 2017	Change	% Change
Total Annual Cost of Operations	50,681,506	49,987,543	(693,963)	-1.4%
Profit	5,320,158	5,247,311	(72,847)	-1.4%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	56,001,664	55,234,855	(766,810)	-1.4%
Total Contractor Pass-Through Costs	1,261,152	952,180	(308,971)	-24.5%
BASE CONTRACTOR'S COMPENSATION	57,262,816	56,187,035	(1,075,781)	-1.9%
Other Adjustments				
Incentive/Disincentive Payments	26,604	(14,802)	(41,405)	
TOTAL CONTRACTOR'S COMPENSATION	57,289,420	56,172,233	(1,117,186)	-2.0%

This table provides the year-over-year comparison of the percentage change in total Contractor's Compensation due to Recology for collection services. **These figures do not include disposal and processing costs, franchise fees or the annual Revenue Reconciliation Surplus/Shortfall.**

1. CALCULATION OF CONTRACTOR'S COMPENSATION FOR THE 2017 RATE YEAR AND VARIANCE ANALYSIS

1.1. ANNUAL ADJUSTMENT TO CONTRACTOR'S BASE COMPENSATION

The process to adjust Recology's compensation entails several steps which are explained in detail in this report.

The first step is to adjust the prior year's costs by the various indices prescribed in the Franchise Agreements (refer to section 1.1.3.). The second step is to add specific adjustments to the Base Contractor's Compensation. These include Incentive/Disincentive payment owed to/from Recology and other specific adjustments that may arise in the normal course of this contract. The final step is the calculation of the Surplus/Shortfall due to/from Recology for the prior year's compensation. Since this is a revenue issue and not a cost issue, it is dealt with separately in this report (refer to Section 2).

1.1.1. Overview of Annual Contractor's Compensation Adjustment

The annual compensation adjustment process is prescribed in the Member Agency Franchise Agreements in Article 11 (Contractor's Compensation, Pass-Through Costs and Rates), Attachment K (Contractor's Compensation and Rate Setting Process) and Attachment N (Contractor's Compensation and Rate Setting Statistics). Article 11 provides an overview of the compensation methodology. Attachment K explains the detailed process and specific rules used to adjust the various cost categories and the allocation of costs to the Member Agencies. The tables that comprise Attachment N are used to calculate the specific cost adjustments prescribed in Attachment K. Therefore, the process to annually adjust Contractor's Compensation is implemented by following the provisions in Article 11, Attachment K and Attachment N.

1.1.2. Total Contractor's Compensation Adjustment

The calculated adjustment for the Total Contractor's Compensation for Rate Year 2017 decreased by \$1,114,090 (-1.9117,186 (-2.0%)), to \$56,175,329/172,233 compared to the compensation approved for 2016. This total cost adjustment for the SBWMA service area as a whole is summarized in

	Compensation - 2016	Compensation - 2017	Change	% Change
Total Annual Cost of Operations	50,681,506	49,987,543	(693,963)	-1.4%
Profit	5,320,158	5,247,311	(72,847)	-1.4%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	56,001,664	55,234,855	(766,810)	-1.4%
Total Contractor Pass-Through Costs	1,261,152	952,180	(308,971)	-24.5%
BASE CONTRACTOR'S COMPENSATION	57,262,816	56,187,035	(1,075,781)	-1.9%
Other Adjustments				
Incentive/Disincentive Payments	26,604	(14,802)	(41,405)	
TOTAL CONTRACTOR'S COMPENSATION	57,289,420	56,172,233	(1,117,186)	-2.0%

Table BA below.

Table A

	Compensation - 2016	Compensation - 2017	Change	% Change
Total Annual Cost of Operations	50,681,506	49,987,543	(693,963)	-1.4%
Profit	5,320,158	5,247,311	(72,847)	-1.4%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	56,001,664	55,234,855	(766,810)	-1.4%
Total Contractor Pass-Through Costs	1,261,152	952,180	(308,971)	-24.5%
BASE CONTRACTOR'S COMPENSATION	57,262,816	56,187,035	(1,075,781)	-1.9%
Other Adjustments				
Incentive/Disincentive Payments	26,604	(14,802)	(41,405)	
TOTAL CONTRACTOR'S COMPENSATION	57,289,420	56,172,233	(1,117,186)	-2.0%

The adjusted Total Contractor's Compensation for each Agency is provided in **Table B** on the next page.

Please note that the figures in the above **Table A**

	Compensation - 2016	Compensation - 2017	Change	% Change
Total Annual Cost of Operations	50,681,506	49,987,543	(693,963)	-1.4%
Profit	5,320,158	5,247,311	(72,847)	-1.4%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	56,001,664	55,234,855	(766,810)	-1.4%
Total Contractor Pass-Through Costs	1,261,152	952,180	(308,971)	-24.5%
BASE CONTRACTOR'S COMPENSATION	57,262,816	56,187,035	(1,075,781)	-1.9%
Other Adjustments				
Incentive/Disincentive Payments	26,604	(14,802)	(41,405)	
TOTAL CONTRACTOR'S COMPENSATION	57,289,420	56,172,233	(1,117,186)	-2.0%

and **Table B** do not include disposal and processing costs, franchise fees or the annual Revenue Reconciliation **Surplus/Shortfall**. **Table A** (above) and **Table B** (on the next page) only pertain to Recology's Base Compensation.

Table B

BASE COLLECTION COSTS	2017 Costs													
	2017 Total	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County
Annual Cost of Operations														
Direct Labor-Related Costs														
Wages for CBAs	\$16,758,609	\$420,867	\$1,078,866	\$1,692,726	\$666,237	\$991,125	\$723,462	\$1,650,604	\$523,679	\$2,941,239	\$1,444,583	\$3,733,043	\$275,629	\$616,549
Benefits for CBAs	\$6,669,971	\$169,393	\$429,051	\$660,417	\$267,203	\$393,702	\$292,655	\$654,482	\$210,298	\$1,173,349	\$573,498	\$1,485,021	\$111,152	\$249,749
Payroll Taxes	\$1,394,316	\$35,016	\$89,762	\$140,835	\$55,431	\$82,462	\$60,192	\$137,330	\$43,570	\$244,711	\$120,189	\$310,589	\$22,932	\$51,297
Workers Compensation Insurance	\$1,471,775	\$36,961	\$94,748	\$148,658	\$58,510	\$87,043	\$63,536	\$144,959	\$45,991	\$258,305	\$126,866	\$327,844	\$24,206	\$54,147
Total Direct Labor Related-Costs	\$26,294,671	\$662,238	\$1,692,426	\$2,642,636	\$1,047,381	\$1,554,332	\$1,139,844	\$2,587,375	\$823,538	\$4,617,605	\$2,265,136	\$5,856,497	\$433,920	\$971,742
Direct Fuel Costs	\$2,066,892	\$56,537	\$129,454	\$191,387	\$86,390	\$123,177	\$99,168	\$216,105	\$63,520	\$359,861	\$185,197	\$441,601	\$35,909	\$78,588
Other Direct Costs	\$2,178,164	\$57,439	\$136,843	\$208,436	\$90,102	\$129,377	\$100,097	\$229,317	\$66,207	\$379,923	\$195,007	\$468,399	\$36,697	\$80,322
Depreciation														
- Collection Vehicles	\$4,016,792	\$113,691	\$249,166	\$366,182	\$166,396	\$242,372	\$194,288	\$436,745	\$120,140	\$696,311	\$365,299	\$842,774	\$69,867	\$153,560
- Containers	\$1,882,550	\$58,597	\$123,181	\$163,868	\$84,106	\$117,380	\$59,190	\$181,675	\$58,429	\$335,090	\$169,003	\$413,342	\$36,548	\$82,141
Total Depreciation	\$5,899,342	172,288	372,347	530,050	250,502	359,752	253,478	618,420	178,569	1,031,401	534,302	1,256,116	106,415	235,701
Allocated Indirect Costs														
General and Administrative	\$7,267,914	\$113,573	\$446,104	\$685,412	\$358,017	\$449,850	\$170,253	\$757,727	\$214,087	\$1,357,211	\$690,854	\$1,636,994	\$114,123	\$273,710
Operations	\$1,787,232	\$52,035	\$111,906	\$174,489	\$71,975	\$108,800	\$87,497	\$192,275	\$50,430	\$301,964	\$162,454	\$374,666	\$31,362	\$67,378
Vehicle Maintenance	\$3,106,609	\$90,448	\$194,517	\$303,301	\$125,109	\$189,119	\$152,090	\$334,217	\$87,658	\$524,882	\$282,381	\$651,254	\$54,514	\$117,118
Container Maintenance	\$1,047,093	\$24,878	\$65,058	\$99,236	\$49,306	\$67,621	\$26,046	\$114,757	\$30,172	\$186,529	\$95,334	\$233,163	\$16,742	\$38,252
Total Allocated Indirect Costs	\$13,208,848	\$280,934	\$817,585	\$1,262,438	\$604,408	\$815,390	\$435,885	\$1,398,977	\$382,346	\$2,370,585	\$1,231,023	\$2,896,077	\$216,742	\$496,459
Total Allocated Indirect Depreciation Costs	\$152,451	\$4,417	\$9,481	\$15,052	\$6,230	\$9,329	\$7,429	\$16,399	\$4,244	\$25,882	\$13,763	\$31,843	\$2,650	\$5,732
Annual Implementation Cost Amortization	\$187,175	\$5,605	\$11,282	\$17,229	\$8,292	\$10,832	\$9,881	\$19,083	\$5,637	\$33,028	\$16,147	\$39,014	\$3,423	\$7,722
Total Annual Cost of Operations ³	\$49,987,543	1,239,457	3,169,418	4,867,228	2,093,304	3,002,189	2,045,784	5,085,676	1,524,061	8,818,285	4,440,575	10,989,546	835,755	1,876,266
Profit	\$5,247,311	\$130,109	\$332,701	\$510,924	\$219,739	\$315,147	\$214,751	\$533,855	\$159,984	\$925,676	\$466,138	\$1,153,599	\$87,731	\$196,956
Operating Ratio	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%	90.5%
Total Operating Cost	\$55,234,855	\$1,369,566	\$3,502,120	\$5,378,152	\$2,313,043	\$3,317,336	\$2,260,535	\$5,619,532	\$1,684,045	\$9,743,961	\$4,906,712	\$12,143,145	\$923,487	\$2,073,222
Contractor Pass-Through Costs														
Interest Expense	\$1,306,716	\$34,910	\$82,380	\$123,300	\$54,949	\$79,811	\$50,721	\$139,463	\$39,995	\$229,463	\$118,989	\$282,123	\$22,042	\$48,570
Interest Expense on Implementation Cost	\$43,030	\$1,141	\$2,595	\$4,291	\$1,898	\$2,489	\$1,981	\$4,382	\$1,326	\$7,739	\$3,680	\$9,180	\$719	\$1,608
Contract Changes to Specific Agencies	(\$397,566)	\$0	\$0	\$0	\$0	\$0	(\$416,528)	\$24,529	\$0	\$0	(\$5,567)	\$0	\$0	\$0
BASE COMPENSATION	\$56,187,035	\$1,405,617	\$3,587,095	\$5,505,743	\$2,369,890	\$3,399,636	\$1,896,710	\$5,787,906	\$1,725,366	\$9,981,163	\$5,023,815	\$12,434,448	\$946,247	\$2,123,400
Incentives and Disincentives	(\$14,802)	(\$212)	(\$698)	(\$1,602)	(\$1,139)	(\$961)	(\$237)	(\$1,199)	(\$399)	(\$3,003)	(\$1,212)	(\$3,439)	(\$300)	(\$403)
Total Contractor Adjustments	(\$14,802)	(\$212)	(\$698)	(\$1,602)	(\$1,139)	(\$961)	(\$237)	(\$1,199)	(\$399)	(\$3,003)	(\$1,212)	(\$3,439)	(\$300)	(\$403)
TOTAL CONTRACTOR'S COMPENSATION	\$56,172,233	\$1,405,405	\$3,586,397	\$5,504,141	\$2,368,751	\$3,398,675	\$1,896,473	\$5,786,707	\$1,724,967	\$9,978,160	\$5,022,603	\$12,431,009	\$945,948	\$2,122,997

1.1.3. Cost Adjustment Process

The 2017 Recology Compensation Application adjusts 2016 costs by applying the year-over-year changes in several United States Department of Labor indices. Additional compensation adjustments have been made for the 2015 Revenue Reconciliation Surplus/Shortfall, interest payments due to/from Recology and 2015 performance incentive/disincentive payments. In addition, several Agencies have specific adjustments (i.e., the Town of Hillsborough, the City of San Carlos, and the City of Menlo Park – see Section 1.3 for more information on this).

The percentage increase and explanation of the various adjustments by cost categories used as the basis for the 2017 adjustment to Recology's compensation are provided in **Table C** on the following page.

Table C

<u>Cost Category</u>	<u>Cost Adjustment</u>	<u>Explanation</u>
CBA Wages (Drivers)	1.75%	The wages adjustment is based on the CPI index described in Table 1 of Attachment K.
CBA Benefits (Drivers)	1.75%	The benefits adjustment is based on the CPI index described in Table 1 of Attachment K.
Payroll Tax (Drivers)	1.75%	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes for 2017; therefore, the payroll tax expense changes in accordance with change in wages.
Worker's Compensation Insurance (Drivers)	1.32%	The workers compensation insurance adjustment is based on an index which increased 1.32%.
Depreciation – Collection Vehicles	0.0%	No adjustment in 2017.
Depreciation - Containers	0.0%	No adjustment in 2017.
CBA (Mechanics and Clerical) Wages and Benefits	1.75%	The wages and benefits adjustments are based on the CPI index described in Table 1 of Attachment K.
Non-CBA Labor	1.75%	The adjustment is based on the CPI index described in Table 1 of Attachment K.
Fuel	-38.27%	The Fuel expense is adjusted by the change in a fuel index of -38.27%.
Other Indirect	0.41%	The Other Indirect expense includes insurance, general office expense, safety, etc. Other Indirect expenses are adjusted by 80% of a CPI index change of .51%.

The flowchart provided as **Table D** illustrates graphically the cost adjustment process that is conducted each year.

Table D

SBWMA - CONTRACTOR COST ADJUSTMENT PROCESS					
<u>Collection and Shoreway Operations Contracts</u>					
2016 APPROVED COSTS (not actual costs)			ADJUSTMENT		2017 CONTRACTORS COMPENSATION
CBA (wages & benefits)		+	Index adjustment beginning Rate Year 2016	=	Base plus Adjustment
<hr style="border-top: 1px dashed black;"/>					
Other Cost		+	Index	=	Base plus Adjustment
<hr style="border-top: 1px dashed black;"/>					
Fuel		+	Index	=	Base plus Adjustment
<hr style="border-top: 1px dashed black;"/>					
Depreciation		+	No Change	=	Last Year's Depreciation
<hr style="border-top: 1px dashed black;"/>					
Allowable Profit					Profit calculated on total approved costs at Operating ratio in Proposal
<hr style="border-top: 1px dashed black;"/>					
Contractor Pass-Through Cost					
Interest			Interest is fixed on sliding scale based on final capital cost		Annual Interest Expense per Interest Schedule
<hr style="border-top: 1px dashed black;"/>					
Other			Actual cost; ie, regulatory fees, etc.		Actual Cost
<hr style="border-top: 1px dashed black;"/>					
2016 TOTAL BASE CONTRACTOR COMPENSATION		+	Total of all Costs Above	=	2017 TOTAL BASE CONTRACTOR COMPENSATION
<p><i>Note: The "CBA (wages & benefits)" row applies to the Collective Bargaining Agreements covering drivers, mechanics and clerical employees. Simplified - for illustration only.</i></p>					

The result of the Cost Adjustment Process is provided in **Table E** on page 13.

1.1.4. Direct Labor-Related Costs

Total Direct Labor and related costs increased by \$446,845 or 1.7%, from the approved 2016 costs. This change is the result of applying an increase for changes in indices, as

described in Table 1 of Attachment K. The four specific costs that are adjusted which comprise the Direct Labor cost category increased as follows:

-1) Wages for CBAs \$288,768.

2) Benefits for CBAs \$114,930.

3) Payroll tax expense has increased by \$24,025 due to the increase in wages described above. The actual payroll tax rate is unchanged from 2015.

4) The final component of Direct Labor-Related Costs, Workers' Compensation Insurance, increased by \$19,122 as a result of applying the change in the Employment Cost Index.

1.1.5. Direct Fuel Costs

Direct Fuel Costs are adjusted based on the change in the Producer Price Index - Commodity Index for #2 diesel fuel. The adjustment for 2017 is a decrease of 38.3% or -\$1,281,193 from 2016. In 2012, this index experienced a 25.55% increase, which is indicative of the volatility of this index and the actual cost of fuel.

1.1.6. Other Direct Costs

Other Direct Costs are adjusted based on applying 80% of the change in a Federal Consumer Price Index. The result is an increase of 0.4% or \$8,894.

1.1.7. Depreciation on Collection Vehicles, Containers and Equipment

There is no cost adjustment for depreciation expense unless a change is approved to the base capital for trucks, containers and equipment. Therefore depreciation expense for Rate Year 2017 is the same as for Rate Year 2016.

1.1.8. Indirect Costs Excluding Depreciation

Allocated Indirect Costs Excluding Depreciation include overhead costs, as follows: General and Administrative costs, Operations (Supervisory) costs, Vehicle Maintenance costs and Container Maintenance costs. These overhead cost categories each include labor and related costs, fuel costs, and other costs. Each cost category is separately adjusted as explained above. Allocated Indirect Costs Excluding Depreciation, increased by 1.0% or \$131,490.

1.1.9. Annual Implementation Cost Amortization

The Implementation or start-up costs for Recology to roll-out the services are amortized over the ten year Term of the Franchise Agreements and are fixed costs. The annual cost is \$187,175.

1.1.10. Profit

Allowable Profit is calculated by applying the Operating Ratio (OR) of ninety and one-half percent (90.5%) to the Contractor's approved Total Annual Costs of Operations. The Total Annual Cost of Operations is not the actual cost of operations. The Total Annual Cost of Operations is determined by increasing the certain line items included in the prior year approved Total Costs of Operations by the index identified in Attachment K. The Total Contractor's Compensation for Rate Year 2017 is made up of annual approved increases added to the amounts originally included in Recology's 2008 RFP submittal.

The compensation for Total Annual Cost of Operations decreased 1.4% or -\$693,963 and is made up of the items discussed. Applying the prescribed OR to the Total Annual Cost of Operations results in ~~an~~ decrease in Profit for 2017 of 1.4%, or -\$72,847.

1.1.11. Contractor Pass-Through Costs

Contractor Pass-Through Costs are made up of any new Regulatory Agency Fees (no changes for 2017), Interest Expense (on capital for trucks and equipment), and Interest Expense on Implementation Costs. Interest expense is adjusted based on the ten year debt service schedule approved at the start of the contract. Interest expense decreased by \$322,940 to \$1,306,716 for 2017. Interest Expense on Implementation Costs decreased by \$10,718 to \$43,030.

Table E

	Compensation - 2016	Compensation - 2017	Change	% Change
Annual Cost of Operations				
Direct Labor-Related Costs				
Wages for CBAs	16,469,842	16,758,609	288,768	1.8%
Benefits for CBAs	6,555,040	6,669,971	114,930	1.8%
Payroll Taxes	1,370,291	1,394,316	24,025	1.8%
Workers Compensation Insurance	1,452,653	1,471,775	19,122	1.3%
Total Direct Labor Related-Costs	25,847,826	26,294,671	446,845	1.7%
Direct Fuel Costs	3,348,085	2,066,892	(1,281,193)	-38.3%
Other Direct Costs	2,169,270	2,178,164	8,894	0.4%
Depreciation				
- Collection Vehicles	4,016,792	4,016,792	-	0.0%
- Containers	1,882,550	1,882,550	-	0.0%
Total Depreciation	5,899,342	5,899,342	-	0.0%
Allocated Indirect Costs				
General and Administrative	7,181,152	7,267,914	86,762	1.2%
Operations	1,777,985	1,787,232	9,247	0.5%
Vehicle Maintenance	3,067,890	3,106,609	38,718	1.3%
Container Maintenance	1,050,330	1,047,093	(3,237)	-0.3%
Total Allocated Indirect Costs	13,077,358	13,208,848	131,490	1.0%
Total Allocated Indirect Depreciation Costs	152,451	152,451	-	0.0%
Annual Implementation Cost Amortization	187,175	187,175	-	0.0%
Total Annual Cost of Operations	50,681,506	49,987,543	(693,963)	-1.4%
Profit	5,320,158	5,247,311	(72,847)	-1.4%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	56,001,664	55,234,855	(766,810)	-1.4%
Contractor Pass-Through Costs				
Regulatory Agency Fees	-	-	-	
Interest Expense	1,629,656	1,306,716	(322,940)	-19.8%
Interest Expense on Implementation Cost	53,748	43,030	(10,718)	-19.9%
Contract Changes to Specific Agencies	(422,253)	(397,566)	24,687	
Total Contractor Pass-Through Costs	1,261,152	952,180	(308,971)	-24.5%
BASE CONTRACTOR'S COMPENSATION	57,262,816	56,187,035	(1,075,781)	-1.9%
Other Adjustments				
Incentive / Disincentives	26,604	(14,802)	(41,405)	
Total Other Adjustments	26,604	(14,802)	(41,405)	
TOTAL CONTRACTOR'S COMPENSATION	57,289,420	56,172,233	(1,117,186)	-2.0%

1.2. SPECIFIC ISSUES FOR 2017

1.2.1. Performance Incentives and Disincentives

The Franchise Agreements prescribe numerous performance standards and also require Recology to compile information and submit monthly, quarterly and annual reports. The information and data contained in these reports are primarily self-reported by Recology. All of the Performance Incentives and Disincentives (Attachment I) with the exception of disincentives related to contamination are self-reported by Recology. The incentives and disincentives self-reported by Recology are currently being audited and may be adjusted pending the results of the audit. The contamination related disincentives are calculated by the SBWMA and payment is remitted directly to the SBWMA so these amounts are not presented.

The calculated Performance Incentives/Disincentives payment for 2015 was a disincentive payment from Recology of ~~\$11,706~~14,802.

Table F provides a breakdown by Member Agency. The payment for Performance Incentives/Disincentives (includes additional Liquidated Damages and Disincentives per the SBWMA audit) to Recology for 2014 was \$26,604 (applied to 2016 rates); therefore, the compensation for Performance Incentives/Disincentives from Recology for 2015 (which includes additional Liquidated Damages and Incentives/Disincentives per the SBWMA audit, applied to 2017 rates) is reduced by ~~\$38,309~~41,405 when compared to Incentives/Disincentives from Recology for 2014 (applied to 2016 rates).

Table F

Performance Incentive/Disincentive Payments 2015						
	Performance Incentives and Disincentives					
Member Agency	SFD Missed P/U Events	Average Speed of Answer	90 Second Max Hold Time	Diversion	Additional Liquidated Damages	Net Incentives and Disincentives
Atherton	\$50	(\$55)	\$0	\$173	\$44	\$212
Belmont	\$100	(\$213)	\$0	\$665	\$146	\$698
Burlingame	\$50	(\$575)	\$0	\$1,791	\$335	\$1,602
East Palo Alto	\$250	(\$307)	\$0	\$958	\$238	\$1,139
Foster City	\$200	(\$265)	\$0	\$825	\$201	\$961
Hillsborough	\$50	(\$65)	\$0	\$202	\$49	\$237
Menlo Park	\$50	(\$424)	\$0	\$1,322	\$251	\$1,199
North Fair Oaks	\$0	(\$149)	\$0	\$464	\$83	\$399
Redwood City	\$350	(\$956)	\$0	\$2,981	\$628	\$3,003
San Carlos	\$250	(\$335)	\$0	\$1,043	\$253	\$1,212
San Mateo	\$450	(\$1,072)	\$0	\$3,342	\$719	\$3,439
SM County	\$100	(\$103)	\$0	\$322	\$84	\$403
WBSD	\$150	(\$41)	\$0	\$128	\$63	\$300
Total	\$2,050	(\$4,560)	\$0	\$14,215	\$3,096	\$14,802
Negative number in parenthesis denotes Incentive payment due to Recology.						

1.3. MEMBER AGENCY SPECIFIC ISSUES

1.3.1. Town of Hillsborough Backyard Service Adjustment

In 2008, the Town of Hillsborough (Hillsborough) initiated a backyard collection fee designed to encourage Single Family Dwelling customers to bring their garbage carts to the curb for collection. As a result of the new fees imposed by Hillsborough, fewer customers requested backyard service. This decrease in backyard collection data was not reflected in Recology's 2008 proposal submittal. Since the data had changed from the time of RSMC's 2008 proposal submittal, Hillsborough requested that Recology review the data included in the proposal and update the assumptions to more accurately reflect the migration to curbside service.

Recology agreed that the decrease in backyard service should in fact reduce the estimated number of Route Hours and the number of Route Labor Hours (two key metrics for cost allocations) needed to service Hillsborough. Therefore, Recology reduced Hillsborough's and the other SBWMA Member Agencies Total Single Family Dwelling Route Labor Hours and Route Hours for Solid Waste, Recyclable Materials, and Organic Materials collection. These changes were only made in the Town of Hillsborough and no other Member Agencies were affected by the changes.

The reduction in hours reduced the Total 2017 Contractor's Compensation for Hillsborough's Single Family Dwelling costs by \$403,018, slightly lower than last year, and is combined with the greenwaste cart cost adjustment described in **1.3.4** below.

1.3.2. City of San Carlos Kitchen Pail Adjustment

A deduction will be made for the City of San Carlos which had already purchased their kitchen pails prior to the roll-out of new services by Recology in 2011. This cost of \$5,567, page 7 in **Table B**, will be deducted from Recology's compensation and is adjusted annually.

1.3.3. City of Menlo Park Billing Adjustment

The City of Menlo Park requested that starting in 2011 Recology add the service of directly billing its customers who had previously been billed by the City. This cost of \$24,529, page 7 in **Table B**, will be added to Recology's compensation and adjusted annually.

1.3.4. Town of Hillsborough Used Green Waste Carts Adjustment

The Town of Hillsborough decided to use their previously owned organics containers and not purchase new ones. Starting in 2011 with the roll-out of new services by Recology, the cost of new carts in the amount of \$13,510 will be deducted from

Recology's compensation and is adjusted annually. This amount can be found on page 7 in **Table B** and is combined with the backyard service adjustment described in section **1.3.1** above for a total of \$416,528.

As part of the agreement to use used green waste carts, the annual depreciation of any new carts requested by residents of Hillsborough would need to be added to Contractor's Compensation (\$14,338 for Rate Year 2017). The staff report for the July 12, 2010 Town Council agenda is included on page 90 of Part 2. The residents have requested 2,875 new green waste carts since January 1, 2011. An additional depreciation schedule can be found on page 93 of Part 2.

1.3.5. City of Belmont Unique Franchise Agreement

Eleven of the twelve SBWMA Member Agency Franchise Agreements use the same compensation methodology to calculate the annual adjustment to the compensation paid to Recology. One Member Agency (i.e., City of Belmont) used a different compensation adjustment methodology; however, use of this different methodology does not impact the costs or services provided to the other eleven Member Agencies. Including the City of Belmont in the cost calculations with the other eleven Member Agencies is necessary in order to accurately implement the cost allocation process prescribed in the Franchise Agreements.

2. ANNUAL REVENUE RECONCILIATION

2.1. REVENUE RECONCILIATION FOR 2015 TO ACCOUNT FOR ANY SHORTFALL OR SURPLUS IN COMPENSATION PAID TO RECOLOGY

For rate years 2013 through 2020, there is an annual revenue reconciliation process to determine what net revenue Recology retained in compensation versus the amount actually owed to the Company. The calculation compares gross revenue billed, less Contractor paid Pass-Through expenses for Agency fees and disposal expense at Shoreway, versus the approved Contractor's Compensation. This reconciliation of what was owed versus what was paid to Recology results in a surplus or shortfall owed to/from Recology by each Member Agency. The 2015 Revenue Reconciliation was submitted on March 31, 2016 and is being audited by a third party firm hired by the SBWMA. The submitted results are included in Recology's 2017 total compensation.

Table G illustrates how the Revenue Reconciliation process is conducted each year.

Table G

2015 REVENUE RECONCILIATION PROCESS	
January 1, 2015 ¹	December 31, 2015
Approved 2015 Recology Compensation	2015 Actual Revenue Billed
+↓	-↓
2015 <u>Estimated</u> Disposal Expense	2015 <u>Actual</u> Disposal ² Expense Paid to SBWMA
+↓	-↓
2015 <u>Estimated</u> Agency Fees	2015 <u>Actual</u> Agency Fees Paid to Agency
+↓	-↓
Prior Period Surplus/Shortfall	Approved 2015 Recology Compensation (no changes)
=↓	=↓
2015 Approved Revenue Requirement	<u>Actual</u> Revenue Surplus/Shortfall Applied to 2017 Rates

¹ SBWMA Board approves Total Revenue Requirement in September for Member Agencies to set rates effective January 1.

² Also includes Organics and Food Scraps Processing costs (tons by Member Agency x contractor rates/ton).

This surplus or shortfall will be added to or subtracted from the Company's compensation for the subsequent rate year (2017) by Member Agency. The Recology 2015 Revenue Reconciliation Report was submitted on March 31, 2016 and is being audited by a third party firm hired by the SBWMA.

Included in the Revenue Reconciliation is a review of revenue received by Recology to provide backyard service. The Franchise Agreement identifies that revenues billed for

providing backyard service for the first twenty percent (20%) of single family dwelling (SFD) customers is to be excluded from contractor's compensation. Currently, no Member Agency has over 20% of their SFD customers subscribing to backyard service, Therefore, 100% of all backyard service revenue (\$90,383) is credited back to the Member Agencies for Rate Year 2015.

The Revenue Reconciliation Report for Rate Year 2015 submitted by Recology on March 31, 2016 finds that Member Agencies in total have a surplusshortfall balance with Recology of \$35,21083,648 including interest. (Refer to page 22 for the Recology Revenue Reconciliation summary table.) Member Agencies with a surplus balance may request a refund from Recology if requested by July 31, 2016 as further explained below.

2.2. INTEREST ASSOCIATED WITH A SHORTFALL OR SURPLUS IN REQUIRED REVENUES

Section 11.07.B of the Franchise Agreement prescribes that interest shall be applied to any surplus or shortfall as calculated in the Revenue Reconciliation Report. The interest is applied to fifty percent (50%) of the difference during the Rate Year in which the difference in revenue occurred (Rate Year 2015) and one hundred percent (100%) of the difference during the immediately following Rate Year (Rate Year 2016). The interest rate is set at the prime rate plus one percent (1%). The prime rate in effect since December 16, 2008 is 3.25%. Therefore interest is calculated at 4.25%.

In March 2014, a Memorandum of Understanding (MOU) between Recology San Mateo County and the SBWMA was approved by the SBWMA Board to clarify the issue of Shortfall and Surplus balances and interest payments for Rate Year 2013 and beyond (see Part 2, page 86). This MOU described that shortfall amounts that are a result of a Member Agency setting rates lower than had been recommended by the SBWMA Board shall have interest applied as described in Section 11.07.B of the Franchise Agreement.

The MOU describes that no interest will be applied to shortfall or surplus amounts that were generated if the Member Agency set rates as recommended by the SBWMA Board. If a Member Agency sets rates above those recommended by the SBWMA Board and a surplus is generated, that Member Agency can have the amount of the surplus refunded to the Member Agency. The refund must be requested in writing by July 31 of each year and Recology will comply with the request for refund in a reasonable time frame. If a Member Agency elects to have the surplus amount refunded, that surplus amount will not be subtracted from the company's compensation for the subsequent rate year as described in Section 2.1 above.

The MOU was updated in July 2015 to include shortfall amounts generated due to a Member Agency setting rates lower than recommended by the SBWMA Board can be

paid to Recology by that Member Agency and avoid the interest charge described above. The Member Agency must notify Regology in writing of its intent to pay the shortfall amount by July 31 of each year. The payment must be received by Recology prior to September 30 of that year. If a Member Agency elects to pay the shortfall, that shortfall amount will not be added to the company's compensation for the subsequent rate year as described in Section 2.1 above. The amended MOU is included on Part 2, page 94.

The interest to be charged on the 2015 Revenue Reconciliation shortfall amounts and included in the Rate Year 2017 Total Contractor's Compensation is included in **Table H**, page 22.

Table H

Recology San Mateo County
Revenue Reconciliation and Interest
Rate Year 2015

	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	County	Agency Total
Gross Revenue Billed	\$ 3,188,740	6,558,771	10,690,190	4,594,914	5,778,606	3,151,168	10,321,736	2,695,770	18,466,567	8,228,769	21,929,464	1,504,471	3,199,374	100,308,540
Less:														
Pass-Through Costs	1,270,963	3,006,707	4,904,632	2,273,475	1,866,311	1,021,325	4,460,191	917,445	7,691,062	2,841,181	8,427,327	471,104	939,541	40,091,264
Unscheduled and Intermittent Services	32,077	68,608	102,721	49,392	22,262	13,388	134,731	35,560	141,917	98,767	355,012	16,972	19,146	1,090,553
Net Revenue Billed	1,885,700	3,483,456	5,682,837	2,272,047	3,890,033	2,116,455	5,726,814	1,742,765	10,633,588	5,288,821	13,147,125	1,016,395	2,240,687	59,126,723
Approved Contractor's Compensation	1,461,074	3,620,978	5,729,318	2,410,949	3,466,353	1,967,587	5,838,582	1,770,658	10,561,173	5,090,254	12,662,789	996,526	2,147,262	57,723,503
2013 (Surplus)/Shortfall	136,721	883,732	(41,259)	(134,974)	333,499	(356,908)	150,422	(17,634)	(144,629)	91,362	433,685	(14,775)	(117,433)	1,201,809
Interest on 2013 (Surplus)/Shortfall	8,716	56,338	—	—	—	—	9,589	—	—	5,824	—	(942)	—	79,525
Total Due Recology San Mateo County for Rate Year 2015	1,606,511	4,561,048	5,688,059	2,275,975	3,799,852	1,610,679	5,998,593	1,753,024	10,416,544	5,187,440	13,096,474	980,809	2,029,829	59,004,837
Surplus/(Shortfall) for Rate Year 2015	\$ 279,189	(1,077,592)	(5,222)	(3,928)	90,181	505,776	(271,779)	(10,259)	217,044	101,381	50,651	35,586	210,858	121,886
Application of Shortfall Remittance, Menlo Park:														
Shortfall Year 2013							160,011							160,011
Remaining Shortfall Remittance to Year 2015							23,550							23,550
Total Application of Shortfall Remittance	—	—	—	—	—	—	183,561	—	—	—	—	—	—	183,561
Requested Refund of Rate Year 2015 Surplus	(279,189)	—	—	—	—	—	—	—	—	—	—	(35,586)	—	(314,775)
Adjusted Surplus/(Shortfall) for Rate Year 2015	\$ —	(1,077,592)	(5,222)	(3,928)	90,181	505,776	(88,218)	(10,259)	217,044	101,381	50,651	—	210,858	(9,328)
Interest to Recology	(1)	(68,696)	—	—	—	—	(5,624)	—	—	—	—	—	—	(74,320)
TOTAL REVENUE RECONCILIATION	—	(1,146,288)	(5,222)	(3,928)	90,181	505,776	(93,842)	(10,259)	217,044	101,381	50,651	—	210,858	(83,648)

(1) Note: In accordance with the Memorandum of Understanding, interest is applied to the shortfall between net revenue billed and the approved amount due Recology if rates are set below those recommended in the SBWMA report approved by the SBWMA Board. Interest is applied to 50% of the difference during the rate year in which the difference occurred (2015) because the difference occurs throughout the year and to 100% of the difference in the immediately following year (2016) because the difference exists the entire year. The interest applied to both years is the prime rate in effect when the SBWMA issued the report for that year plus one percent (1%). The prime rate for Rate Year 2015 is 3.25%.

(2) In June 2016, the City of Menlo Park remitted \$360,000 to Recology to pay the 2013 (\$160,011) and 2014 (\$176,439) shortfalls in accordance with the Staff Report dated 2/9/16, Agenda Item 1-2. Recology has applied the 2013 shortfall above. The application of the 2014 shortfall remittance will be included in the 2016 Revenue Reconciliation. The remaining \$23,550 of the \$360,000 remittance is applied to the 2015 Revenue Reconciliation, above.

3. ALLOCATION OF COSTS TO THE MEMBER AGENCIES

3.1. EXPLANATION OF COST ALLOCATION PROCESS

The process to allocate Recology's cost equitably across all Member Agencies is prescribed in Article 11 and Attachment K of the Agreements. Recology's sixteen cost categories are allocated based on four operational statistics for each of the 17 service sectors specific to each Member Agency. These operational statistics are:

- Annual route labor hours
- Annual route hours
- Number of containers in service
- Number of customer accounts serviced

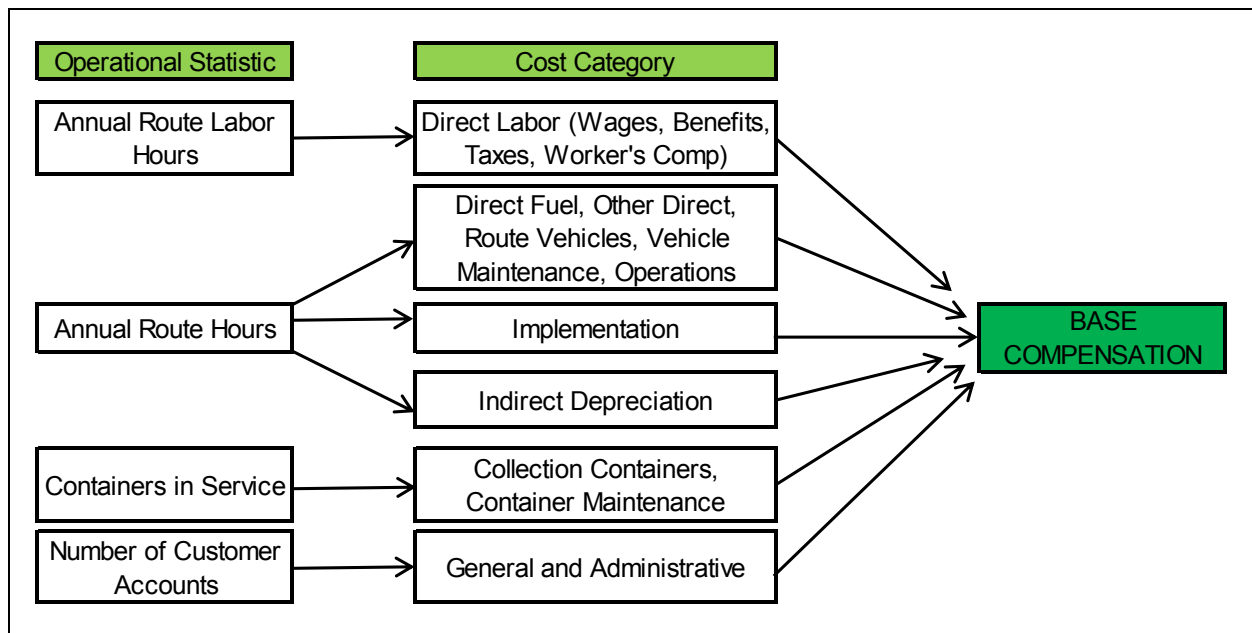
Recology conducted its Annual Route Assessment over a four week period in April and May 2016 to determine the statistics that will be applied to each Member Agency. A summary of the metrics used for the cost allocation process are provided in Appendix 1-1. Refer to Appendix 1-2 and Appendix 1-3 on pages 34 and 35 for two of the statistics comparing 2016 to 2017 data by Member Agency (route labor hours and route hours).

Table I details which operational statistics are applied to allocate each of the cost categories. **Table J** is a graphical representation of **Table I**.

Table I

	<u>Cost Category</u>	<u>Operational Statistic</u>
COST OF OPERATIONS		
	Wages for Direct Labor	Annual Route Labor Hours
	Benefits for Direct Labor	Annual Route Labor Hours
	Payroll Taxes	Annual Route Labor Hours
	Worker's Compensation Expense	Annual Route Labor Hours
	Direct Fuel Costs	Annual Route Hours
	Other Direct Costs	Annual Route Hours
	Route Vehicles	Annual Route Hours
	Collection Containers	Containers in Service
	Other	Annual Route Hours
INDIRECT COSTS		
	General and Administrative	Number of Customer Accounts
	Vehicle Maintenance	Annual Route Hours
	Container Maintenance	Number of Containers in Service
	Operations	Annual Route Hours
	IMPLEMENTATION	Annual Route Hours
	INDIRECT DEPRECIATION	Annual Route Hours

Table J



In an effort to illustrate how the cost allocation process is conducted, an example for the City of Menlo Park residential solid waste line of business is provided in **Table K** below. The first section of this table outlines Menlo Park's share of the four operating statistics (i.e., number of accounts, total route labor hours per year, route hours per year and total containers in service.) The second section shows how the allocation of these operational statistics is applied to the cost categories (i.e., direct labor, direct fuel, etc.).

It is important to note that this process is conducted for seventeen lines of business (e.g., Single-Family solid waste, recycling, organics; Commercial/MFD solid waste, recycling, organics, etc.) and **Table K**, below, only represents the calculation for one service sector (i.e., Single-Family Dwelling) in one line of business (i.e., Solid Waste collection service). **Table L**, on page 26, provides a list of all seventeen lines of business.

Table K

Example of Cost Allocation Calculation - 2017			
City of Menlo Park Allocated Cost for SFD, Solid Waste Line of Business			
			Statistics
1	# of Accounts - City		7,890
	# of Accounts - Total SBWMA		94,580
	% of Accounts - City		8.3%
2	Total Route Labor hours year - City		4,236
	Total Route Labor hours year - Total SBWMA		47,351
	% Total Route Labor hours year - City		8.9%
3	# of route hours/year - City		3,977
	# of route hours/year - Total SBWMA		43,822
	% Total Route Labor hours year - City		9.1%
4	Total Containers in Service - City		8,119
	Total Containers in Service - Total SBWMA		96,806
	% Total Containers in Service - City		8.4%
		a	b
		Line of Business	
		Solid Waste	Solid Waste
		SBWMA Total	MP Cost Allocation
			(a x b)
Annual Cost of Operations			
Direct Labor-Related Costs			
	Wages for CBAs	\$3,360,117	8.9%
	Benefits for CBAs	\$1,329,532	8.9%
	Payroll Taxes	\$279,562	8.9%
	Workers Compensation Insurance	\$295,100	8.9%
	Total Direct Labor Related-Costs	\$5,264,310	
	Direct Fuel Costs	\$404,512	9.1%
	Other Direct Costs	\$405,630	9.1%
	Depreciation - Collection Vehicles	\$803,031	9.1%
	Depreciation - Containers	\$428,963	8.4%
	Depreciation for Collection Equipment	\$1,231,994	
Allocated Indirect Costs			
	General and Administrative	\$1,363,251	8.3%
	Operations	\$335,233	9.1%
	Vehicle Maintenance	\$582,710	9.1%
	Container Maintenance	\$196,404	8.4%
	Total Allocated Indirect Costs	\$2,477,598	
	Total Allocated Indirect Depreciation Costs (Form 9)	\$28,295	9.1%
	Annual Implementation Cost Amortization (Form A)	\$40,497	9.1%
Total Annual Cost of Operations		\$9,852,837	\$873,109
Profit (from Operating Ratio below)		\$1,034,276	\$91,652
	90.5%	90.5%	90.5%
Total Costs before Pass-Through Cost		\$10,887,113	\$964,762
Contractor Pass-Through Costs			
	Interest Expense	\$244,896	see note
	Interest Expense on Implementation Cost	\$8,094	see note
	Total Contractor Pass-Through Costs	\$252,990	\$22,373
BASE CONTRACTOR'S COMPENSATION - 2017		\$11,140,103	\$987,134
Note: Interest Expense is allocated based on the % of each agency's depreciation expense to the total. Interest Expense on Implementation Cost is allocated based on route hours. Calculation is not shown above.			

See Appendix 3-7, page 82 column A to trace the example identified in **Table K** to the Single-Family solid waste cost allocation to the actual Member Agency cost worksheet.

Table L

<u>Attachment N Reference</u>	<u>Line of Business</u>	<u>Service Sector</u>
A	Solid Waste (1)	Single-Family Residential
B	Recyclable Materials (2)	
C	Organic Materials (3)	
D	Weekly Battery and Cell Phone Collection (4)	
E	Weekly Used Motor Oil and Filters (5)	
F	Twice Annual Bulky Item Collection (6)	
E	Cart and Bin Solid Waste (7)	Commercial/MFD
F	Cart and Bin Recyclable Materials (8)	
G	Cart and Bin Organic Materials (9)	
H	Drop Box Solid Waste (10)	
H	Drop Box Recyclable Materials (11)	
H	Drop Box Organic Materials (12)	
J	Twice Annual Bulky Item Collection (13)	
E	Solid Waste (14)	Agency Facility
G	Organic Materials (15)	
I	Public Litter and Recycling Cans (16)	
I	Venues and Events (17)	

3.2. COST ALLOCATION VARIANCES FOR MEMBER AGENCIES

Total Contractor's Compensation is allocated each year based on the new operational statistics compiled from the annual route assessment conducted by Recology each year in April/May. Therefore, the percent of cost allocated to each Member Agency changes each year. **Table M** below shows the total cost allocation percent by Member Agency in 2016 and 2017, the allocation percentage difference, the total cost percent change, and the total cost variance attributed to the change in cost allocation percent.

Table M

Percentage of Total Contractor's Compensation Total Cost Allocation					
	2016	2017	Difference %	Variance %	Difference \$
Atherton	2.52%	2.48%	-0.03%	-1.33%	\$ (18,877)
Belmont	6.41%	6.34%	-0.07%	-1.05%	\$ (38,056)
Burlingame	10.01%	9.73%	-0.28%	-2.84%	\$ (160,910)
East Palo Alto	4.14%	4.19%	0.05%	1.16%	\$ 27,141
Foster City	5.83%	6.01%	0.17%	2.97%	\$ 97,958
Hillsborough	4.16%	4.09%	-0.07%	-1.66%	\$ (39,008)
Menlo Park	10.30%	10.19%	-0.11%	-1.11%	\$ (64,777)
North Fair Oaks	3.02%	3.05%	0.03%	0.83%	\$ 14,190
Redwood City	17.70%	17.64%	-0.06%	-0.32%	\$ (31,622)
San Carlos	8.70%	8.89%	0.19%	2.16%	\$ 106,336
San Mateo	21.77%	21.97%	0.20%	0.93%	\$ 114,357
West Bay Sanitary	1.75%	1.67%	-0.08%	-4.61%	\$ (45,732)
County of San Mateo	3.68%	3.75%	0.07%	1.87%	\$ 38,999
Totals	100%	100%	0.00%	N/A	\$ 0

Note: Dollar difference amounts in parentheses are a reduction in total cost allocation.
Year 2015 and 2016 percentages are shown rounded to two decimal places.

The Total SBWMA year-over-year percentage change in the cost categories for the three service sectors (i.e., Residential, Commercial/Multi-Family and Member Agency Facilities) is provided as **Appendix 2-2**, page 39. For each Agency, the year-over-year changes in the main operational statistics are shown in the Member Agency Snapshot Summary table and the associated cost adjustments are provided in detail in **Appendix 3**. Additionally, the bottom of the Attachment N, Schedule B, shows the change in allocation in percent and cost by Line of Business (cost from allocation change only).

The primary factor that is attributable to the year-over-year cost allocation variances is the number of labor hours used to service each Member Agency. Because all Member Agencies comprise 100% of the total allocation of costs, a reduction or increase in the allocation of one Member Agency affects the other Member Agencies.

Changes in each Member Agency's percent of route hours results in changes in the allocation of costs which can be impacted by several possible factors. Allocation changes can be the result of changes in route drivers, changes in traffic patterns, changes in set-out locations for containers, new service time constraints due to noise, street sweeping, requested collection times, etc.

In looking at the change in statistics from one year to the next, it is important to point out that it is not just how one Member Agency's statistics change but how the Agency's statistics change in comparison to the total. For example, if an Agency has a 10% reduction in hours but the total SBWMA also has a 10% reduction, then the cost allocation percent to this Agency will not change. If an Agency has a 10% reduction but the total SBWMA has a 15% reduction, then the Agency will actually have a larger cost allocation percent than the previous year. So the Agency's statistical changes in comparison to the total are what really affect changes to the cost allocation percent. The tables in Appendix 1 provide a useful comparison of how each Member Agency statistics change in comparison to other Member Agencies and to the total SBWMA.

3.3. INDIVIDUAL MEMBER AGENCY VARIANCES

As in prior year compensation applications, Recology focuses the variance analysis on jurisdictions whose individual allocation changed by 3% or more (Variance % column in table M above). The 3% benchmark is used as anything less than 3% could be driven by a variety of "soft factors". Factors such as traffic, relief driver impact, proper/improper set outs, and seasonality can attribute to variances of less than 3%.

It is important to note that **no Member Agency's overall allocation changed by more than three-tenths of 1 percent** from the prior year. In fact, eight Member Agencies only had a change of **less than one-tenth of one percent** in their cost allocation. For example, West Bay Sanitary District's overall allocation decreased from 1.75% to 1.67%, a difference of only -0.08%. Yet, due to West Bay Sanitary District's smaller cost allocation percentage, as compared to the other 12 Member Agencies, this -0.08% decrease resulted in a -4.61% variance.

West Bay Sanitary District

The decrease in West Bay Sanitary District's total cost allocation can be attributed to a decrease in route hours and route labor for one commercial recycle route and one residential ~~MSW~~municipal solid waste route. The decrease of route hours and route labor hours for both routes is attributed to relief drivers taking longer to conduct these routes in 2015, compared to the regular route drivers who serviced these same routes in 2016.

3.4. OPERATIONAL INFORMATION FOR COST ALLOCATION

Operational information used to allocate Contractor's Compensation can be found in the following tables provided in **Appendix 1**:

- A summary of major statistics (Appendix 1-1)
- Number of Route Labor Hours by Line of Business (Appendix 1-2)
- Number of Route Hours by Line of Business (Appendix 1-3)
- Number of Containers in Service by Line of Business (Appendix 1-4)
- Number of accounts by Line of Business and account type (i.e., container size, collection frequency, and material type) (Appendix 1-5)

All data provided is a result of the Annual Route Assessment conducted in April and May of 2015.

3.4.1. Annual Route Hours by Line of Business

Annual Route Hours by Line of Business identifies the time spent by each route servicing customers by Member Agency, Service Sector (i.e., Single-Family Dwelling, Multi-Family Dwelling, Commercial and Agency Facility), and Line of Business (e.g., solid waste collection, organic materials collection). This information was gathered over the four week period from April 11, 2016 to May 8, 2016 using the Route Time and Distance Reports from our Routeware on-board computer system.

It should be noted that in order to optimize routing efficiencies we maintain some collection routes that include stops in the territory of more than one Member Agency. For such routes our data management systems (Routeware System) enable us to accurately identify route hours to the appropriate Member Agencies. In instances where Routeware was not available on an individual truck on an individual day, route hours for that route and that day from another week in the four week period were used.

Route Hours are made up of the hours route vehicles spend servicing the customers in each jurisdiction. Route Labor Hours includes the employee actual worked hours spent servicing customers in each jurisdiction as well as any off route time. Off route time, which includes paid breaks, pre and post trip inspection of vehicles as well as travel time to and from the route, is allocated to each jurisdiction based on that jurisdictions percentage of route time for each specific route each day. Additionally, certain commercial routes are two man routes and include 2 employees. In these cases, the route labor hours will be doubled to include both employees.

3.4.2. Annual Route Labor Hours by Line of Business

The Annual Route Labor Hours by Line of Business were generated by using information gathered during the four week period from April 11, 2016 through May 8, 2016 using the daily Route Time & Distance by Franchise reports from our Routeware on-board computer system.

3.4.3. Number of Containers in Service by Line of Business

The Number of Containers in Service by Line of Business table is the number of containers, both carts and bins, located at active accounts at a point in time, that being May 6, 2016.

3.4.4. Number of Accounts by Line of Business

The Number of Accounts by Line of Business table is not an annualized report. This particular report represents active accounts at a point in time, which was May 6, 2016.

3.5. DESCRIPTION OF OTHER OPERATIONAL INFORMATION

The tables included in **Appendix 1** (Operational Information) of this Compensation Application include other data required in the Agreements. These tables provide a breakdown of the data by Member Agency, Service Sector, and Line of Business. For the complete list of statistical tables, see Part 2, Section 1, including these same tables and additional statistical tables (e.g., list of vehicles, personnel, set-outs).

4. COST ADJUSTMENT CALCULATIONS IN TOTAL AND BY MEMBER AGENCY

Attachment N of the Franchise Agreement illustrates the calculation process to derive the actual total compensation adjustment and allocation to each Member Agency. A summary of the tables from the Attachment N adjustment process are found in **Appendix 2**.

As previously shown in **Section 1.1.11 Table E**, the table provided as **Appendix 2-1** shows the results of all the cost adjustments, as previously described, in total for the combined SBWMA service area. In **Appendix 2-1**, each cost category is broken out with this year's cost, next year's cost, the dollar variance and the percent variance. In total, there was a ~~-\$1,114,090~~ ~~(-1.9)~~117,186 (-2.0)% compensation adjustment including Performance Incentives/Disincentives.

Appendix 2-2 breaks out the Base Contractor's costs by line of business and shows a decrease in compensation of -1.9% before the Performance Incentives/Disincentives. Single Family collection costs decreased by -1.9%, Commercial and Multi-Family costs decreased by -1.8% and Agency Facilities costs decreased by -1.6 %.

Appendix 2-3 shows the 2017 total costs including special and one-time adjustments by Member Agency. At the bottom of the table is a comparison to the 2016 total costs and the percentage change. The variance by Member Agency is primarily due to changes in the cost allocation percent versus last year and specific adjustments to individual Member Agencies.

Appendices 2-4, 2-5 and 2-6 provide the 2017 costs by line of business and service sector. Costs are adjusted and allocated at the level of detail shown in this table. At the bottom of each table is the 2016 total cost, the dollar change and the percentage change. The variance by service sector reflects changes in operating hours, which impacts how the total cost is allocated.

Appendix 3 provides six tables for each Agency:

1. Contractor's Base Compensation – Detail
2. Contractor's Compensation by Service Sector
3. Allocated Costs – SFD
4. Allocated Costs – MFD & Commercial
5. Allocated Costs – Agency Facilities
6. The Snapshot Report for the Member Agency

Contractor's Compensation by Service Sector shows the 2017 total costs including special adjustments by Member Agency. At the bottom of this table is a comparison to the 2016 total costs and the change in percentage. Also included at the bottom is a comparison of the total cost allocation by line of business for this year, next year, the dollar impact of the allocation change and the percentage change. For example, on page 87, Redwood City had a 17.5% allocation of the 2016 Single Family Dwelling cost but 16.9% for 2017 with a 0.6% year-over-year allocation decrease. This decrease resulted in a cost allocation decrease of \$207,795. Multi-Family and Commercial had a 17.8% allocation in 2016 and 18.6% for 2017, a 0.7% increase, which resulted in a cost increase of \$171,842. Similarly, the Agency Facilities cost allocation increased 0.4%, or \$4,215. The result was a total cost allocation decrease of 0.06% or \$31,737.

Allocated Costs by Service Sector and Line of Business provide the 2017 costs by line of business and service sector. Costs are adjusted and allocated at the seventeen lines of business shown in these tables. For comparison purposes, at the bottom of each column, is also the 2016 total cost, the dollar change and the percentage change. Provided at the top of each column are the operational statistics and percent of the total attributed to that specific Member Agency for each line of business. The color coding denotes the statistic used to adjust each cost category

Member Agency Snapshot is a summary and comparison of the basic operating statistics and includes three years of data. It includes the four statistics used to allocate costs as described in Section 3 of this Application, as follows:

1. Number of Accounts
2. Total Route Labor hours
3. Total Route Hours
4. Total Number of Solid Waste Containers

APPENDIX B

SBWMA COMMENTS AND QUESTIONS ON THE JUNE 15, 2016 RECOLOGY 2017 COMPENSATION APPLICATION

SBWMA FINAL REPORT REVIEWING THE 2017 RECOLOGY COMPENSATION APPLICATION

September 15, 2016



**Recology San Mateo County
Response to Questions from the SBWMA Regarding
Recology 2017 Compensation Application Part 1**

Below are Recology's responses to the SBWMA Comments and Questions:

SBWMA Comment: In the above table, 1) please revise the label "Total Other Adjustments" to state "Incentive/Disincentive Payments" for clarity

Executive Summary, page 4 of 4, change made

SBWMA Comment: Please apply the correction noted for the previous table to **Table A**.

Calculation of Contractor's Compensation, page 2 of 13, change made

Calculation of Contractor's Compensation, page 13 of 13, change not accepted. The adjustment cost amount can change year to year.

Annual Revenue Reconciliation, page 3 of 5, change not accepted. The March 31st submittal is not yet final.

Allocation of Costs to the Member Agencies, page 6 of 8, MSW is replaced with municipal solid waste.

SBWMA Comment:

While the Compensation Application as presented establishes a threshold of cost allocation variances equal to or less than 3% as the threshold for Recology to provide a detailed analysis of why the variance occurred, we respectfully request that a threshold of \$50,000 be applied in lieu of a 3% fixed percentage. This request was also made last year. Similar to the 2016 Compensation Application, in the 2017 Compensation Application all cost allocation variances are less than 3%, thus no detailed analysis was provided for the specific cause for any variances for individual Member Agencies with the exception of the above explanation for West Bay Sanitary. However, a total of five



Member Agencies experienced variances greater than \$50,000 both positive and negative and additional analysis is requested.

Please provide a detailed analysis of the cost allocation variance for the following five Member Agencies which experienced substantive changes in their cost allocation exceeding \$50,000:

- Burlingame – 2017 decrease of \$160,910 (2016 increase of \$98,962)
- Foster City – 2017 increase of \$97,958 (2016 decrease of \$71,996)
- Menlo Park – 2017 decrease of \$64,777 (2016 increase of \$172,995)
- San Carlos – 2017 increase of \$106,336
- San Mateo – 2017 increase of \$114,357

Additionally, please include in the requested analysis an explanation of why some Member Agencies (i.e., Burlingame, Foster City and Menlo Park noted above) experienced substantive swings in excess of \$50,000 for both 2016 and 2017.

Using a fixed dollar amount as a threshold for required additional detailed analysis does not reflect an equitable nor substantive change in cost allocations. As an example, a \$50,000 variance in Hillsborough would be more significant than a \$50,000 variance in San Mateo. Therefore, we will continue to use the 3% threshold variance, as previously agreed upon.

SBWMA Comment: In Section 3.3 it states a cost allocation variance under 3% is due to “soft factors” (i.e., traffic, relief driver impact, proper/improper set outs, and seasonality). Please explain why these “soft factors” appear to impact certain Member Agencies annually as noted above and why the relative annual “seasonality” can impact variances in cost allocation given that all Member Agencies experience seasonal changes or events uniformly and the cost allocation data is collected from all the Member Agencies during the same time period annually.

Over the past several years, questions have been raised about changes in allocations, which have resulted in variances year over year for Member Agencies. As agreed upon, Recology has provided rationale related to increases or decreases in individual Member Agency year-to-year variances of 3% or more. Yet, there continues to be questions about variances of less than 3%. There also seems to be the perception that Route Labor Hours as compared to Route Hours as compared to the number of accounts or lifts should correlate in such that if any one of these factors increases or decreases, they all should change in the same manner. Unfortunately, that is not the case, and there are a multitude of soft factors (i.e., traffic conditions, weather, road



closures or detours, proper/improper set outs, equipment, drivers, etc.), that will affect the overall allocation of each Member Agency, and each of these factors will affect them differently year to year.

As an example, a Member Agency can have 25 additional accounts, stops and/or lifts than the previous year, which one might assume would increase their Route Hours and Route Labor Hours. And in a perfect world, Recology would agree with that assumption. However, recycling, organic and solid waste collection does not operate uniformly. So many “soft factors” may surface throughout a collection day, week, or month, all of which can affect Route Hours and Route Labor Hours. Take for instance, traffic conditions. San Mateo County has seen tremendous and steady growth over the past several years, which has resulted in higher population and record low commercial vacancy rates. All of which are contributing factors to Route Hours and Route Labor Hours.

It’s important to know that even if a Member Agency does not have statistical changes (i.e., # of accounts, # of lifts, route hours and route labor hours) from the previous year, they may in fact still experience a fluctuation in their allocation and variance, due to other Member Agency increases or decreases in allocation.

In addition, no Member Agency saw a change in their overall allocation of more than 0.28%, and only one Member Agency (West Bay Sanitary District) saw a change in their variance of 3% or more.

In this case, **West Bay Sanitary District had a variance of -4.61%, which is the result of their 1.75% overall allocation percentage changing to a 1.67% overall allocation percentage, a decrease of 0.08% (-0.08% / 1.75% = -4.61% variance).** The variance for West Bay Sanitary District is explained in the Rate Year 2017 Compensation Application. That being said, Recology has devoted considerable time in researching what may have attributed to negligible variances, in an effort to answer the questions below:

SBWMA Comments: Please explain the following variances for 2016 to 2017 listed below.

Appendix 1-1 (page 33) - “SERVICE METRICS USED FOR COST ALLOCATION BY MEMBER AGENCY”



SINGLE-FAMILY DWELLING

Agency: Burlingame

1. # of SFD Account increase of 0.3%
2. Route Labor Hours **decrease** of **7.2%**
3. # of Route Hours **decrease** of **6.9%**
4. Why was there a decrease in Route Labor Hours of 7.2% and a decrease in # of Route Hours of 6.9% with a 0.3% **increase** in Accounts?

In addition to the soft factors referenced above, Recology identified two residential organics routes in Burlingame that experienced an additional 450 annualized lifts.

Agency: Foster City

1. # of SFD Account decrease of -0.4%
2. Route Labor Hours **increase** of **6.5%**
3. # of Route Hours **increase** of **4.2%**
4. Why was there an increase in Route Labor Hours of 6.5% and an increase in # of Route Hours of 4.2% with a -0.4% **decrease** in Accounts?

In addition to the soft factors referenced above, Recology noted an increase in Bulky Item Collection (BIC) events in Foster City during the data collection period, which resulted in an additional 500 annualized BIC events.

Agency: Menlo Park

1. # of SFD Account increase of 0.2%
2. Route Labor Hours **increase** of **7.2%**
3. # of Route Hours **increase** of **9.6%**
4. Why was there an increase in Route Labor Hours of 7.2% and an increase in # of Route Hours of 6.9% with only a 0.2% **increase** in Accounts?

In addition to the soft factors referenced above, Recology noted an increase in BIC events in Menlo Park during the data collection period, which resulted in an additional 155 annualized BIC events.



Agency: North Fair Oaks

1. # of SFD Account decrease of -0.2%
2. Route Labor Hours **increase** of **15.0%**
3. # of Route Hours **increase** of **16.2%**
4. Why was there an increase in Route Labor Hours of 15.0% and an increase in # of Route Hours of 16.0% with -0.2% **decrease** in Accounts?

In addition to the soft factors referenced above, Recology identified that one Organics Route had an increase in participation. There was also an increase in BIC events during the data collection period, which resulted in an additional 349 annualized BIC events.

Agency: San Mateo

1. # of SFD Account increase of 0.7%
2. Route Labor Hours **increase** of **5.2%**
3. # of Route Hours **increase** of **10.6%**
4. Why was there an increase in Route Labor Hours of 5.2% and an increase in # of Route Hours of 10.6% with only a 0.7% **increase** in Accounts?

In addition to the soft factors referenced above, Recology noted an increase in BIC events during the data collection period, which resulted in an additional 736 annualized BIC events.

Agency: Unincorporated County

1. # of SFD Account increase of 0.3%
2. Route Labor Hours **increase** of **7.2%**
3. # of Route Hours **increase** of **4.1%**
4. Why was there an increase in Route Labor Hours of 7.2% and an increase in # of Route Hours of 4.1% with only a 0.3% **increase** in Accounts?

In addition to the soft factors referenced above, Recology identified that one Organics Route had an increase in participation. There was also an increase in BIC events, which resulted in an additional 241 annualized BIC events.



COMMERCIAL & MFD

Agency: Atherton

1. # of Accounts increase of 0.0%
2. Route Labor Hours decrease of -9.8%
3. # of Route Hours decrease of -2.0%
4. Why was there a decrease in Route Labor Hours (-9.8%) and # of Route Hours (-2.0%) with no change in Accounts?

In addition to the soft factors referenced above, Recology noted last year that a collection vehicle servicing Atherton during the data collection period experience a breakdown. However, there were no collection vehicle breakdowns in Atherton during this year's data collection period.

Agency: Hillsborough

1. # of Accounts increase of 0.0%
2. Route Labor Hours decrease of -19.3%
3. # of Route Hours decrease of -13.7%
4. Why were there decreases in Route Labor Hours (-19.3%) and Route Hours (-13.7%) with no change in Accounts?

Small changes in hours can create larger percentage changes in Member Agencies with low annual hours. In the case of Hillsborough's decrease in Route Hours and Route Labor Hours, a specific incident could not be identified. The change may be the result of soft factors referenced above. The decrease in route labor hours equates to approximately 7 minutes per day.

Agency: Menlo Park

1. # of Accounts increase of 1.4%
2. Route Labor Hours decrease of -7.9%
3. # of Route Hours decrease of -7.0%
4. Why were there **decreases** in Route Labor Hours (-7.9%) and Route Hours (-7.0%) with a 1.4% **increase** in accounts (i.e., 35 additional Accounts)?
5. Why wouldn't more Accounts result in increases in Route and Labor Hours instead of substantive decreases?



In addition to the soft factors referenced above, Recology noted that during the Rate Year 2016 data collection period, a replacement driver serviced a route while the regular driver was out for medical reasons. During this data collection period, the regular route driver serviced this route and experienced a decrease in Route Hours and Route Labor Hours. As previously stated, the number of accounts may not correlate with increases or decreases in Route Hours or Route Labor Hours.

Agency: North Fair Oaks

1. # of Accounts increase of 1.4%
2. Route Labor Hours **decrease** of **-12.0%**
3. # of Route Hours **decrease** of **-4.5%**
4. Why were there **decreases** in Route Labor Hours (-12.0%) and # of Route Hours (-4.5%) with 1.4% **increase** in Accounts?

In addition to the soft factors referenced above, Recology noted last year that there were two collection vehicle breakdowns on routes servicing North Fair Oaks during the data collection period. Whereas this year, there were no collection vehicle breakdowns on routes servicing North Fair Oaks during the data collection period.

Agency: San Mateo

1. # of Accounts increase of 1.1%
2. Route Labor Hours **decrease** of **-5.1%**
3. # of Route Hours **decrease** of **-4.0%**
4. Why was there a **decreases** in Route Labor Hours (-5.1%) and # of Route Hours (-4.0%) with 1.1% **increase** in Accounts?

In addition to the soft factors referenced above, Recology identified that a different helper was utilized on a two man route servicing San Mateo during the data collection period. This two man route has proven to be a more efficient team.

Agency: West Bay Sanitary District

1. # of Accounts **increase** of 4.9%
2. Route Labor Hours **decrease** of **6.7%**
3. # of Route Hours **decrease** of **11.1%**
4. Why was there a **decrease** in Route Labor Hours of 6.7% and a **decrease** in # of Route Hours of 11.1% with 4.9% **increase** in Accounts?



As previously stated, the increase in the number of lifts and accounts may not necessarily correlate to the change in Route Hours and Route Labor Hours. The change, however, may be attributed to various soft factors, including improved/improper cart/bin set-outs, favorable/unfavorable on-route and off-route traffic conditions, seasonality, and the proficiency of the collection vehicle operator.

[MEMBER] AGENCY FACILITY SERVICES

Agency: Atherton

1. # of Lifts **increase** of 10.5%
2. Route Labor Hours **decrease** of -9.9%
3. # of Route Hours **decrease** of -2.6%
4. Why was there **decreases** in Route Labor Hours (-9.9%) and # of Route Hours (-2.6%) with a 10.5% **increase** in # of Lifts?

As previously stated, the increase in the number of lifts and accounts may not necessarily correlate to the change in Route Hours and Route Labor Hours. The change, however, may be attributed to various soft factors, including improved/improper cart/bin set-outs, favorable/unfavorable on-route and off-route traffic conditions, seasonality, and the proficiency of the collection vehicle operator.

Agency: Belmont

1. # of Lifts **increase** of 19.3%
2. Route Labor Hours **decrease** of -20.4%
3. # of Route Hours **decrease** of -21.1%
4. Why were there **decreases** in Route Labor Hours (-20.4%) and # of Route Hours (-21.1%) with the # of lifts **increasing** by 19.3%?
5. Why wouldn't an increase in Lifts correlate to increases in Route Labor and Route Hours?

As previously stated, the increase in the number of lifts and accounts may not necessarily correlate to the change in Route Hours and Route Labor Hours. The change, however, may be attributed to various soft factors, including improved/improper cart/bin set-outs, favorable/unfavorable on-route and off-route traffic conditions, seasonality, and the proficiency of the collection vehicle operator.



Agency: Hillsborough

1. # of Lifts increase of 3.3%
2. Route Labor Hours increase of 67.2%
3. # of Route Hours increase of 60.7%
4. Why are there substantive increases in both Route Labor Hours (67.2%) and # of Route Hours (60.7%) while only a small change in # of Lifts (3.3%)?

The increase in the number of lifts may not necessarily correlate to the change in Route Hours and Route Labor Hours. A small change in hours can create larger percentage changes in Member Agencies with low annual hours. In the case of Hillsborough Member Agency Facility Route Hours, the increase equates to approximately 2.56 minutes per day. There were no specific incidents or activities identified during the data collection period that would account for the increase in hours. The increase in hours may be attributed to various soft factors, such as traffic and road conditions, equipment, drivers, etc.

Agency: San Carlos

1. # of Lifts **increase** of 20.4%
2. Route Labor Hours **decrease** of -2.6%
3. # of Route Hours **increase** of 13.0%
4. Why did Route Labor Hours (-2.6%) **decrease** with substantive **increase** in the # of Lifts (20.4%)?

The increase in the number of lifts and Route Hours is due to the increase in Member Agency Facility Recyclable Materials line of business of 64.4%, which may be attributed to the new recycling collection at San Carlos Highlands Park, which was initiated in the fall of 2015.

Agency: Unincorporated County

1. # of Lifts increase of 0.0%
2. Route Labor Hours decrease of -37.1%



3. # of Route Hours decrease of -34.9%
4. Why did Route Labor Hours (-37.1%) and # of Route Hours (-34.9%) substantively **decrease** with no change in the # of Lifts?

As previously stated, the increase in the number of lifts and accounts may not necessarily correlate to the change in Route Hours and Route Labor Hours. The change, however, may be attributed to various soft factors, including improved/improper cart/bin set-outs, favorable/unfavorable on-route and off-route traffic conditions, seasonality, and the proficiency of the collection vehicle operator.



**Recology San Mateo County
Response to Questions from the SBWMA Regarding
Recology 2017 Compensation Application Part 2**

Below are Recology's responses to the SBWMA Comments and Questions:

The following questions/comments pertain to the source file labeled: **2. Calculation of Contractor's Compensation for Rate Year 2017**

1. Tab: "Attachment N-B"
 - a. Cell E-H8
 - i. Please correct the title in Row 8 to read **"2017 Total Costs."**

Change not made. This tab is a hidden tab built by the SBWMA in 2013 when the model was updated to include additional requested tabs. Recology has not made changes to the SBWMA model. This tab is no longer used and remains hidden.

2. Tab: "Att N-B" (Cells P24 and P52 are revised.)
 - a. While the calculations are correct, the following errors are still present in the referenced cells and should be corrected.
 - i. Cell P24 had an error message (i.e., "#DIV/0!") and was revised using the ISERROR function.
 - ii. Cell P52 was hard coded and was revised by using the ISERROR function.
 - iii. In order to avoid calculation errors in this column it is suggested that the ISERROR function be used throughout this column as noted above.
 - iv. The blue highlighting in Cells P24 and P52 should be omitted for consistency.

Changes made on tab Att N-B. (revised).



3. Tab: "Att N-E. SFD (revised)"

- a. Cell K9 is hard coded and not linked to another source. Please revise the title to read "**Total 2017,**" to ensure that Cell L9 in tab "Att. N-F. Comm & MFD (revised)" and cell "I10 in Att. N-G MA Services (revi)" will be updated since these cells are linked to this cell.

Changes made.

4. Tab: "Att. N-G. MA Services (revi)"

- a. This tab title should be renamed "Att. N-G MA Services (revised)" for consistency.

Changes made.

5. Tab: "H. Index Calcs"

- a. It appears the "Percentage Change Rate" for "Year 2017" is correct; however, the data shown in the tables for "Fuel" for "January 2016" should be "119.2" and not "119.5." Please refer to our comments included to the right of this table.

Change not made. Making the small change in the January 2016 index, would change the Percentage Change Rate for year 2017 and result in a small difference of approximately \$300, and would require reproduction of the RY 2017 Compensation Application, part 1 and part 2. The amounts in the Compensation Application are accurate at the time they are accessed from the Bureau of Labor Statistics. Fuel index values are subject to change throughout the review period. The indices data included with Recology's original submittal are now fixed and become the base for next year's Compensation Application, which will be adjusted by the index values available next year. The values in the original submitted Calculation file will provide the starting points for the next year's Calculation.

- b. The "Fuel" index referenced in Cell B43 should be corrected to "WPU057303."



- c. The "Other Costs" Cell B70 should be corrected to "CUUR0000SA0."
- d. The "Depreciation" Cell B94 should be corrected to "PCU336211336211."
- e. The note provided in cell H61 (i.e., "Jan-Apr are changed to refle[c]t final the index number") is unclear and should be revised.

Comment deleted. The comment is no longer applicable to current Compensation Applications.

- f. Please revise the Series Report identification numbers to appear in UPPER CASE letters to accurately reflect the identification number of these indices (i.e., Cells B28, B43, B70, B94).

Changes not made for items b., c., d. and f. in the current Compensation Application. Upper case letters do not affect the accuracy of the Application, however the change would require revision of the Compensation Application.

These changes will be made in the RY 2018 Compensation Application.

6. Tab: "N-K. Detail 1 – Indirect Cost"

- a. The Report Series (indices) are incorrect. Please correct these Report Series to reflect the following corrections:
 - i. Cell K11 (i.e., cis201s000000000A) should be corrected to "CIS201S000000000I."
 - ii. Cell K12 (i.e., ciu203000000000a) should be corrected to "CIU203000000000I."
 - iii. Cell K13 (i.e., wpu057303) should be corrected to "WPU057303."
 - iv. Cell K14 (i.e., cuur0000sa0) should be corrected to "CUUR0000SA0."

Changes not made for these items in the current Compensation Application. Requested changes do not affect the accuracy of the Application, however they would require revision of the Compensation Application.

These changes will be made in the RY 2018 Compensation Application.

7. Tab: "N-K. Detail 4 – Updated Totals"



- a. The Report Series (indices) are incorrect in all the tables. Please correct the Report Series to reflect the following corrections:
 - i. Cells M11, AH11, and BA11 (i.e., ciu2030000000000a) should be corrected to “CIU2030000000000I.”
 - ii. Cells M12, AH12, and BA12 (i.e., wpu057303) should be corrected to “WPU057303.”
 - iii. Cells M13, AH13, and BA13 (i.e., cuur0000sa0) should be corrected to “CUUR0000SA0.”
 - iv. Cells M14, AH14, and BA14 (i.e., pcu336211336211) should be corrected to “PCU336211336211.”
 - v. Cells M15, AH15, and BA15 (i.e., pcu336211336211) should be corrected to “PCU336211336211.”

Changes were not made for items i. – v. above. Changes to uppercase letters do not affect the accuracy of the Application, however they would require reproduction of the RY 2017 Compensation Application.

These changes will be made in the RY 2018 Compensation Application.

- b. The 2016 cost sheets for “SFD,” “MFD,” and “Agency Facilities” appear to reflect the correct values, with the exception of “Total Indirect Costs,” which are improperly referencing 2017 values. Please verify that all figures are referencing the same year. This correction also impacts the total rows at the bottom for 2016; however, it appears the 2017 data is accurate. Please revise rows 40-46/columns E-K (SFD), Y-AF (MFD) and AU-AY (Agency Facilities) to reflect the 2016 values.

Changes not made. The Calculation of Contractor’s Compensation file is the agreed upon model at the onset of the Franchise Agreement built in collaboration between Recology and the SBWMA. Indirect costs are intended to be updated to the current rate year amounts first (tabs Detail 1 and Detail 2) and are intended to be presented in tab Detail 4 as they appear. Indirect cost are not updated on tab Detail 4. All other costs are updated to current rate year amounts on tab Detail 4 and are intended to be presented as they appear.



- c. The 2016 costs are linked to “Detail 3 - Service Level Chngs” and it appears this tab is extraneous and should be omitted. The correction would entail hard coding the values in tab “N-K 4 – Updated Totals” to avoid any confusion.

Change not made. Tab “Detail 3 – Service Level Chngs” is currently hidden and has no effect on the RY 2017 calculation of Contractor’s Compensation. The Calculation of Contractor’s Compensation file is the agreed upon model at the onset of the Franchise Agreement built in collaboration between Recology and the SBWMA. The Franchise Agreement calls for Service Level Adjustments, which are calculated on tab Detail 3. Costs are intended to flow through tab Detail 3 to tab Detail 4. It is necessary to keep this tab in the Calculation file should Service Level Adjustments need to be calculated in future Compensation Applications.

8. Tab: “D. Atherton” (and all subsequent Member Agency tabs)
 - a. The color coding of cells in this tab (e.g., Cell AB49) is inconsistent and should be corrected. This color coding was designed to ensure clarity in reviewing this information, thus please make the appropriate revisions for all the individual Member Agency tabs.

Changes not made in the current Compensation Application. Requested changes do not affect the accuracy of the Application, however they would require reproduction of all affected pages of the Compensation Application, part 1 and part 2.

These changes will be made in the RY 2018 Compensation Application.

9. Tab: “D. North F.O.”
 - a. It appears that Cells AD73 and AE73 do not have a calculation function. These cells are currently hard coded to zero and therefore do not have the proper calculation. Please make this correction.

Changes not made in the current Compensation Application. Requested changes do not affect the accuracy of the Application, however they would require reproduction of the RY 2017 Compensation Application.

These changes will be made in the RY 2018 Compensation Application.

APPENDIX C

MEMBER AGENCY QUESTIONS AND COMMENTS ON RECOLOGY 2017 COMPENSATION APPLICATION WITH RECOLOGY'S RESPONSES

SBWMA FINAL REPORT REVIEWING THE 2017 RECOLOGY COMPENSATION APPLICATION

September 15, 2016

**County of San Mateo Comments on:
 Recology San Mateo County Rate Year 2016 Application For Contractor's Compensation Adjustment
 June 15, 2016**

Section	Comment	Response from Recology
<p>Part 1. Executive Summary, (<i>Results of the 2015 Revenue Reconciliation, Section 2, Page 2 of 4</i>)</p>	<p>1. Please provide an explanation for charging interest to NFO? The SBWMA report did not recommend a rate increase in the Final Rate Application Report for 2016, the report indicated a decrease -0.6% and the Total Collection Rate Impact for 2015 (82614.xlsx) indicated a -2.2%.</p> <p>2. Can you please provide an explanation on where the variance occurred in the revenue reconciliation was it Residential or Commercial account revenue?</p> <p>Please provide a detailed table indicating the tax roll and Recology revenue received in 2015 for NFO</p>	<p>1. The interest for NFO is a result of the Revenue Reconciliation for Rate Year 2015. The recommended rate adjustment for Rate Year 2015 was an increase of .7%. A rate increase was not initiated for Rate Year 2015. The result of the Rate Year 2015 Revenue Reconciliation indicated a shortfall of \$10,259. The 2016 Revenue Reconciliation will be submitted in March 2017.</p> <p>2. The 2015 Collection Revenue @ 2014 Rates was projected by the SBWMA. The revenues for NFO identified in Table 8 of the SBWMA Final Report Reviewing the 2015 Recology Compensation Application are shown in total and not broken out by Residential or Commercial account revenue.</p> <p>Attached is the schedule indicating tax roll revenue and Recology billed revenue for Rate Year 2015.</p>
<p>Part 1., Allocation of Costs To the Member Agencies (<i>3.2 Cost Allocation Variances For Member Agencies, Table M Page 5 of 8 (27)</i>),</p>	<p>Please provide an explanation for the increase in the Cost Allocations variances for both NFO and the County of San Mateo areas?</p>	<p>The primary factor for Cost Allocation variances for NFO and the County of San Mateo are attributable to the year-over-year cost allocation variances are</p>

**County of San Mateo Comments on:
 Recology San Mateo County Rate Year 2016 Application For Contractor's Compensation Adjustment
 June 15, 2016**

		<p>the number of labor hours used to service each Member Agency. Because all Member Agencies comprise 100% of the total allocation of costs, a reduction or increase in the allocation of one Member Agency affects the other Member Agencies. Changes in each Member Agency's percent of route hours results in changes in the allocation of costs which can be impacted by several possible factors. Allocation changes can be the result of changes in route drivers, changes in traffic patterns, changes in setout locations for containers, new service time constraints due to noise, street sweeping, requested collection times, etc.</p>
<p>Part 1. Appendix 1- Summary Service Metrics, Metrics Summary Used for Cost Allocation Revenue, (Attachment N Appendix 1-1, Page 1 of 1 (33))</p>	<p>1. Please explain the increase in route labor projections for 2017 for NFO and the Unincorporated San Mateo County area?</p> <p>2. Please explain the increase in containers for 2017 in NFO residential accounts (tax roll accounts)? We do not anticipate adding 366 new containers to the tax roll. How was this calculated?</p>	<p>1. The increase in the route labor hours for NFO and the Unincorporated San Mateo County is a result of an increase in participation for residential organics in 2016 compared to 2015. As an example, in NFO, Route 874 on Wednesday had a 65% increase in participation and in Unincorporated San Mateo County, Route 887 on Tuesday had a 22% increase in participation.</p>

**County of San Mateo Comments on:
Recology San Mateo County Rate Year 2016 Application For Contractor's Compensation Adjustment
June 15, 2016**

		<p>2. The number of containers does not equate to the number of accounts. The calculation for containers in Attachment N includes the annualized number of On Call Collection events as part of the container count. The annualized On Call Collection events for 2016 is 349 more than in 2015.</p>
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**County of San Mateo Comments on:
Recology San Mateo County Rate Year 2016 Application For Contractor's Compensation Adjustment
June 15, 2016**

Section	Comment	Response from Recology
<p>Part 1. Appendix 1- Summary Service Metrics, Annual Route Labor Hours by Line of Business, (Appendix 1-2, Table 8, Annual Route Labor Hours by Line of Business , Page 1 of 1 (33))</p>	<p>Please explain the projection for increasing the annual route labor hours for Single Family Organic Materials and the Two On Call Collections events (SFD and MFD) for both NFO and Unicorp. County?</p>	<p>Please see response above for Single Family Organics annual Route Labor Hours.</p> <p>On Call Collection events are based upon the actual number of services provided during the month of April, which are then annualized. As noted above, NFO had an increase in On Call Collection events in 2016, and Unincorporated San Mateo County increased by 241.</p>
<p>Part 1. Appendix 3- Cost Adjustments and Snapshot for each Member Agency 3-11 Allocated Costs (SFD, Commercial MFD, Agency Facilities) North Fair Oaks, (Appendix 3-11, D. County of San Mateo North Fair Oaks Allocated Costs – SFD, Page 3 of 6 (106))</p>	<p>In Column J please explain the 47.4% increase? Does this include illegal dumping pick-ups?</p>	<p>The 47.4% increase is related to NFO's increase in On Call Collection events and does not include illegal dumping. As noted above, NFO has 350 more annualized On Call Collection events in 2016.</p>
<p>Part 1. Audited Financials Statement and Compilation, page 24 and 25 of 25 (145)</p>	<p>Please explain where the additional recycling carts fee from Attachment Q (County's \$10.00 recycling cart fees) revenue is indicated in the financial statements calculations?</p>	<p>The additional \$10.00 is included in residential revenue on page 22 of 25.</p>
<p>Part 2. Operational Information Annual Route Hours by Line of Business, (Operational Information, Table 7, page 1 of 1 (7))</p>	<p>1. In 2016, it indicates 0.0 in 2016 for Member Agency Facilities (Roll-Off and Compactor) why does it indicate 49.8 for 2017?</p> <p>2. Explain the increase in Member Agency Facilities Solid Waste hours for North Fair Oaks?</p>	<p>1. The increase Roll-Off service is based upon a change in service from on-call to scheduled weekly debris box service at the Chestnut yard.</p> <p>2. A small change in hours can create larger percentage changes in</p>

**County of San Mateo Comments on:
 Recology San Mateo County Rate Year 2016 Application For Contractor's Compensation Adjustment
 June 15, 2016**

		<p>Member Agencies with low annual hours. The annual increase in Member Agency Facility Solid Waste hours for North Fair Oaks equates to approximately 2.3 minutes per day. There were no specific incidents or activities identified during the data collection period that would account for the increase in hours. This increase in hours may be attributed to various soft factors, such as traffic and road conditions, equipment, drivers, etc.</p>
<p>Part 2. Supporting Documentation Interest Calculations on Rate Year 2015, (Recology San Mateo County Interest Calculation on Rate Year 2015 Surplus/(Shortfall) Rate Year 2017 Rate Application (page 1 of 1 (78))</p>	<p>As mentioned above it is our understanding that interest is applied if rates are set below those recommended in the SBWMA report and as mentioned above the SBWMA recommended a decrease for both rates years, why is interest being charged to NFO?</p>	<p>The SBWMA recommended rate adjustment for Rate Year 2015 was an increase of 0.7% as noted on Row C.3 of Table 8 of the SBWMA Final Report. Reviewing the 2015 Recology Compensation Application.</p>

F:\Users\ewms\03 Program Files\SBWMA\Rate Reviews\16-17\Table of County of San Mateo Comments on the Recology San Mateo County Rate Year 2017 Application.docx

Recology San Mateo County
 Additional Cart Fees and Revenue
 North Fair Oaks
 Year 2015

	2015 January	2015 February	2015 March	2015 April	2015 May	2015 June	2015 July	2015 August	2015 September	2015 October	2015 November	2015 December	Total
North Fair Oaks (CSA-8)													
Additional Residential Recycling Cart Fees	80.00	(4.00)	70.00	26.00	60.00	60.00	60.00	60.00	60.00	60.00	67.50	70.00	669.50
Additional Residential Organics Cart Fees	450.00	366.00	440.00	396.00	430.00	410.00	420.00	420.00	397.50	415.00	420.00	390.00	4,954.50
Total Additional Residential Cart Fees	530.00	362.00	510.00	422.00	490.00	470.00	480.00	480.00	457.50	475.00	487.50	460.00	5,624.00
Residential Revenue net of additional cart fees - Billed by Recology	2,265.12	2,160.23	2,049.71	1,776.72	2,034.27	2,250.16	2,165.70	2,211.84	2,146.99	2,122.21	1,802.28	2,158.70	25,143.93
Residential Revenue - Tax Roll	83,213.57	83,213.57	83,213.57	83,213.57	83,213.57	83,213.57	83,158.95	83,158.95	83,158.95	83,158.95	83,158.95	83,158.95	998,235.12
Total Residential Revenue	86,008.69	85,735.80	85,773.28	85,412.29	85,737.84	85,933.73	85,804.65	85,850.79	85,763.44	85,756.16	85,448.73	85,777.65	1,029,003.05
Multi-Family Revenue billed by Recology	14,969.76	22,284.74	22,405.92	22,761.54	22,941.73	22,514.90	22,485.40	22,378.43	22,149.88	21,953.31	22,328.57	21,906.57	261,080.75
Commercial Revenue billed by Recology	92,507.75	92,180.80	93,365.14	94,104.74	93,585.49	92,854.33	92,085.34	91,486.38	91,122.02	92,817.50	91,640.09	91,400.45	1,109,150.03
Multi-Family/Commercial Revenue billed by Recology	107,477.51	114,465.54	115,771.06	116,866.28	116,527.22	115,369.23	114,570.74	113,864.81	113,271.90	114,770.81	113,968.66	113,307.02	1,370,230.78
Multi-Family Revenue - Tax Roll	24,742.86	24,742.86	24,742.86	24,742.86	24,742.86	24,742.86	24,742.86	24,742.86	24,742.86	24,742.86	24,742.86	24,742.86	296,914.32
subtotal	132,220.37	139,208.40	140,513.92	141,609.14	141,270.08	140,112.09	139,313.60	138,607.67	138,014.76	139,513.67	138,711.52	138,049.88	1,667,145.10
Total Revenue NFO (CSA-8)	218,229.06	224,944.20	226,287.20	227,021.43	227,007.92	226,045.82	225,118.25	224,458.46	223,778.20	225,269.83	224,160.25	223,827.53	2,696,148.15

Farouk Fakira

From: Lillian Clark <lclark@smcgov.org>
Sent: Monday, July 25, 2016 1:10 PM
To: Tamera Del Bene; Farouk Fakira
Cc: Chuck Collins; GinoGasparini; MikeKelly; Mario Puccinelli; Hilary Gans; Danielle Lee; Jim Porter; Joe La Mariana
Subject: RE: Recology's 2017 Compensation Application--Questions
Attachments: no_reply@co.sanmateo.ca.us_20160722_174405.pdf

Tammy, and et al.

Thank You for your response. I do have a one more question. I have attached the Total Collection Rate Impact By Member Agency – 2015, 9/2/2014 sheet. Line F, Total Rate Impact (C+D+E)**, F.3 Cumulative Rate Adjustment Percentage from the SBWMA. This Table indicates a -2.2 cumulative rate adjustment was needed in 2015 for NFO due to the surplus in revenue for 2012 and 2014.

1. The franchise agreement states, Section 11.07 Rate-Setting Process, B. Annual Review Process (line 3796-3806, page 94-116):
 - A. “(2) If the Agency elects to set rates that are below those recommended in the SBWMA report, (or delays acting to revise rates such that the recommended rates do not go into effect until after January 1), and the Revenue Reconciliation process conducted by SBWMA for that Rate Year demonstrates that Net Revenues Billed were less than the approved Contractor's Compensation contained in the SBWMA report, interest shall accrue on the difference.”
2. The subsequent “Memorandum of Understanding by and between Recology San Mateo County (Recology)and the South Bayside Waste Management Authority, a California JPA (SBWMA).” A. E. 4., 4.
 - A. Recology shall not receive any interest on shortfalls in 2014 and in future years unless the Member Agency adjusts its rates below the rate adjustment recommended in the SBWMA Report and approved by the SBWMA Board.

The statement in the County Franchise Agreement is a “and” statement; the assumption would be it requires both conditions to occur to charge interest to the Agency. Setting rates below the SBWMA recommendation and the revenue reconciliation process demonstrated the revenue was less. The MOU between SBWMA and Recology specifies if the agency adopted rates below the SBWMA report.

The County did not adopt rates below the -2.2% SBWMA recommendation (Line F.3) for 2015 for NFO (see attachment), it is not clear as to why NFO is charged interest in the application report? Please clarify or revise the Recology Application Executive Summary page 2 and Table H page 22. Please give me a call to discuss further or I can set up a conference call with Farouk and Hilary if we need additional clarification from the SBWMA.

Thank You,
Lillian Clark
County of San Mateo
Office of Sustainability
County Manager’s Office

From: Tamera Del Bene [mailto:TDelbene@recology.com]

Sent: Friday, July 22, 2016 2:44 PM

To: Joe La Mariana <jlamariana@smcgov.org>

Cc: Chuck Collins <ccollins@recology.com>; Gino Gasparini <ggasparini@recology.com>; Mike Kelly <mkelly@recology.com>; Mario Puccinelli <MPuccinelli@recology.com>; Hilary Gans <hgans@rethinkwaste.org>; Lillian Clark <lclark@smcgov.org>; Ann Stillman <astillman@smcgov.org>; Danielle Lee <dlee@smcgov.org>; Jim Porter <jporter@smcgov.org>

Subject: Recology's 2017 Compensation Application--Questions

Good Afternoon,

Attached please find Recology's responses to the County of San Mateo comments of our Recology Rate Year 2017 Compensation Application. In addition to our responses, we have attached the schedule indicating tax roll revenue and Recology billed revenue for Rate Year 2015.

Thank you for the opportunity to respond to your comments and questions. We look forward to our continued partnership in serving the residents and businesses in the North Fair Oaks and Unincorporated County of San Mateo areas.

Best,
Tammy

Tammy Del Bene

Waste Zero Manager

Recology® San Mateo County

225 Shoreway Road | San Carlos, CA 94070

T: 650.595.3900 | tdelbene@recology.com

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Join the **Recology®** San Mateo County online community on [Facebook](#) and [Twitter](#).

This e-mail is confidential and intended only for the individual or entity named above. Please consider the environment before printing.

Farouk Fakira

From: Lillian Clark <lclark@smcgov.org>
Sent: Thursday, August 04, 2016 3:40 PM
To: Mike Kelly
Cc: Farouk Fakira; Joe LaMariana; Jim Porter; Danielle Lee
Subject: FW: Recology's 2017 Compensation Application--Questions

Mike,
Thank You for addressing our charge.
Sincerely,
Lillian Clark

From: Mike Kelly [mailto:mkelly@recology.com]
Sent: Thursday, August 04, 2016 3:34 PM
To: Lillian Clark <lclark@smcgov.org>
Subject: RE: Recology's 2017 Compensation Application--Questions

Lillian,

Recology reviewed the Interest charge to CSA-8 (North Fair Oaks) and has removed the \$654 charge for the Rate Year 2015 shortfall. An updated Revenue Reconciliation will be sent to the SBWMA.

From: Lillian Clark [mailto:lclark@smcgov.org]
Sent: Monday, July 25, 2016 1:10 PM
To: Tamera Del Bene <TDelbene@recology.com>; Farouk Fakira <ffakira@rethinkwaste.org>
Cc: Chuck Collins <ccollins@recology.com>; Gino Gasparini <ggasparini@recology.com>; Mike Kelly <mkelly@recology.com>; Mario Puccinelli <MPuccinelli@recology.com>; Hilary Gans <hgans@rethinkwaste.org>; Danielle Lee <dlee@smcgov.org>; Jim Porter <jporter@smcgov.org>; Joe La Mariana <jlamariana@smcgov.org>
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Tammy, and et al.

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Lillian Clark
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Best,
Tammy

Tammy Del Bene
Waste Zero Manager

Recology® San Mateo County
225 Shoreway Road | San Carlos, CA 94070
T: 650.595.3900 | tdelbene@recology.com

WASTE ZERO: [Recycling](#) [Composting](#) [Garbage](#)
Join the **Recology®** San Mateo County online community on [Facebook](#) and [Twitter](#).

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APPENDIX D

MEMBER AGENCY VARIANCE ANALYSIS OF TOTAL COLLECTION COST AND RATE IMPACT

SBWMA FINAL REPORT REVIEWING THE 2017 RECOLOGY COMPENSATION APPLICATION

September 15, 2016

COLLECTION RATE VARIANCE ANALYSIS estimated 8/12/2016		SBWMA TOTAL				
		2017 Variance				
		2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)			\$ 98,861,313			
Projected Collection Revenue (After Rate Increase)		\$ 98,919,750				
2016 Base Revenue Surplus / <Shortfall>				\$501,573		-0.5%
Total Contractor's Compensation						
Base Compensation		\$ 57,685,069	\$ 56,584,600	\$ (1,100,469)	-1.9%	-1.1%
Agency Specific Contract Changes		\$ (422,253)	\$ (397,566)	\$ 24,687	-5.8%	0.0%
Incentives / Disincentives		\$ 26,604	\$ (14,802)	\$ (41,405)	-155.6%	0.0%
Total Contractor's Compensation		\$ 57,289,420	\$ 56,172,233	\$ (1,117,186)	-2.0%	-1.1%
Pass-Through Costs						
Disposal & Processing Fees		\$ 26,633,767	\$ 29,450,676	\$ 2,816,909	10.6%	2.8%
Agency Franchise & Other Fees		\$ 14,436,554	\$ 14,577,002	\$ 140,449	1.0%	0.1%
Subtotal Pass-Through Costs		\$ 41,070,321	\$ 44,027,679	\$ 2,957,358	7.2%	3.0%
TOTAL REVENUE REQUIREMENT		\$ 98,359,740	\$ 100,199,912	\$ 1,840,172	1.9%	1.9%
2016 Estimated Surplus / <Shortfall>		\$ 560,010				
2017 Estimated Surplus / <Shortfall>			\$ (1,338,598)			
Required Revenue Adjustment			1.4%			1.4%

All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	Atherton				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 3,097,872			
Projected Collection Revenue (After Rate Increase)	\$ 3,098,513				
2016 Base Revenue Surplus / <Shortfall>			\$ 390,617		-12.6%
Total Contractor's Compensation					
Base Compensation	\$ 1,452,198	\$ 1,405,617	\$ (46,581)	-3.2%	-1.5%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 192	\$ (212)	\$ (404)	-209.9%	0.0%
Total Contractor's Compensation	\$ 1,452,390	\$ 1,405,405	\$ (46,985)	-3.2%	-1.5%
Pass-Through Costs					
Disposal & Processing Fees	\$ 924,390	\$ 1,012,566	\$ 88,176	9.5%	2.8%
Agency Franchise & Other Fees	\$ 330,474	\$ 330,949	\$ 475	0.1%	0.0%
Subtotal Pass-Through Costs	\$ 1,254,864	\$ 1,343,515	\$ 88,651	7.1%	2.9%
TOTAL REVENUE REQUIREMENT	\$ 2,707,254	\$ 2,748,920	\$ 41,666	1.5%	1.3%
2016 Estimated Surplus / <Shortfall>	\$ 391,259				
2017 Estimated Surplus / <Shortfall>		\$ 348,951			
Required Revenue Adjustment			-11.3%		-11.3%
All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	Belmont				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 6,516,852			
Projected Collection Revenue (After Rate Increase)	\$ 6,518,224				
2016 Base Revenue Surplus / <Shortfall>			\$ (364,462)		5.6%
Total Contractor's Compensation					
Base Compensation	\$ 3,695,653	\$ 3,587,095	\$ (108,558)	-2.9%	-1.7%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 929	\$ (698)	\$ (1,627)	-175.1%	0.0%
Total Contractor's Compensation	\$ 3,696,582	\$ 3,586,397	\$ (110,185)	-3.0%	-1.7%
Pass-Through Costs					
Disposal & Processing Fees	\$ 1,408,088	\$ 1,548,178	\$ 140,090	9.9%	2.1%
Agency Franchise & Other Fees	\$ 1,776,644	\$ 1,762,324	\$ (14,321)	-0.8%	-0.2%
Subtotal Pass-Through Costs	\$ 3,184,732	\$ 3,310,502	\$ 125,770	3.9%	1.9%
TOTAL REVENUE REQUIREMENT	\$ 6,881,314	\$ 6,896,899	\$ 15,585	0.2%	0.2%
2016 Estimated Surplus / <Shortfall>	\$ (363,090)				
2017 Estimated Surplus / <Shortfall>		\$ (380,047)			
Required Revenue Adjustment			5.8%		5.8%
All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	Burlingame				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 10,655,270			
Projected Collection Revenue (After Rate Increase)	\$ 10,687,325				
2016 Base Revenue Surplus / <Shortfall>			\$ (119,943)		1.1%
Total Contractor's Compensation					
Base Compensation	\$ 5,776,859	\$ 5,505,743	\$ (271,116)	-4.7%	-2.5%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 3,745	\$ (1,602)	\$ (5,347)	-142.8%	-0.1%
Total Contractor's Compensation	\$ 5,780,604	\$ 5,504,141	\$ (276,462)	-4.8%	-2.6%
Pass-Through Costs					
Disposal & Processing Fees	\$ 3,031,247	\$ 3,341,208	\$ 309,961	10.2%	2.9%
Agency Franchise & Other Fees	\$ 1,963,362	\$ 1,954,000	\$ (9,363)	-0.5%	-0.1%
Subtotal Pass-Through Costs	\$ 4,994,609	\$ 5,295,208	\$ 300,599	6.0%	2.8%
TOTAL REVENUE REQUIREMENT	\$ 10,775,213	\$ 10,799,349	\$ 24,136	0.2%	0.2%
2016 Estimated Surplus / <Shortfall>	\$ (87,888)				
2017 Estimated Surplus / <Shortfall>		\$ (144,079)			
Required Revenue Adjustment			1.4%		1.4%
All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016		E Palo Alto				
		2017 Variance				
		2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)			\$ 4,537,544			
Projected Collection Revenue (After Rate Increase)		\$ 4,538,532				
2016 Base Revenue Surplus / <Shortfall>				\$ (168,993)		3.7%
Total Contractor's Compensation						
	Base Compensation	\$ 2,388,311	\$ 2,369,890	\$ (18,421)	-0.8%	-0.4%
	Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
	Incentives / Disincentives	\$ 1,774	\$ (1,139)	\$ (2,913)	-164.2%	-0.1%
Total Contractor's Compensation		\$ 2,390,084	\$ 2,368,751	\$ (21,333)	-0.9%	-0.5%
Pass-Through Costs						
	Disposal & Processing Fees	\$ 1,538,250	\$ 1,680,836	\$ 142,587	9.3%	3.1%
	Agency Franchise & Other Fees	\$ 778,204	\$ 868,942	\$ 90,738	11.7%	2.0%
Subtotal Pass-Through Costs		\$ 2,316,454	\$ 2,549,778	\$ 233,324	10.1%	5.1%
TOTAL REVENUE REQUIREMENT		\$ 4,706,538	\$ 4,918,529	\$ 211,991	4.5%	4.7%
2016 Estimated Surplus / <Shortfall>		\$ (168,006)				
2017 Estimated Surplus / <Shortfall>			\$ (380,984)			
Required Revenue Adjustment			8.4%			8.4%
All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.						

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	Foster City				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 5,559,729			
Projected Collection Revenue (After Rate Increase)	\$ 5,560,174				
2016 Base Revenue Surplus / <Shortfall>			\$ 208,877		-3.8%
Total Contractor's Compensation					
Base Compensation	\$ 3,365,890	\$ 3,399,636	\$ 33,747	1.0%	0.6%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 1,763	\$ (961)	\$ (2,725)	-154.5%	0.0%
Total Contractor's Compensation	\$ 3,367,653	\$ 3,398,675	\$ 31,022	0.9%	0.6%
Pass-Through Costs					
Disposal & Processing Fees	\$ 1,575,613	\$ 1,727,557	\$ 151,943	9.6%	2.7%
Agency Franchise & Other Fees	\$ 407,585	\$ 407,275	\$ (311)	-0.1%	0.0%
Subtotal Pass-Through Costs	\$ 1,983,199	\$ 2,134,831	\$ 151,632	7.6%	2.7%
TOTAL REVENUE REQUIREMENT	\$ 5,350,852	\$ 5,533,506	\$ 182,654	3.4%	3.3%
2016 Estimated Surplus / <Shortfall>	\$ 209,322				
2017 Estimated Surplus / <Shortfall>		\$ 26,223			
Required Revenue Adjustment			-0.5%		-0.5%
All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	Hillsborough				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 3,134,788			
Projected Collection Revenue (After Rate Increase)	\$ 3,135,056				
2016 Base Revenue Surplus / <Shortfall>			\$ 182,232		-5.8%
Total Contractor's Compensation					
Base Compensation	\$ 2,397,992	\$ 2,313,237	\$ (84,755)	-3.5%	-2.7%
Agency Specific Contract Changes	\$ (440,856.73)	\$ (416,527.89)	\$ 24,328.84	-5.5%	0.8%
Incentives / Disincentives	\$ 185	\$ (237)	\$ (422)	-227.7%	0.0%
Total Contractor's Compensation	\$ 1,957,321	\$ 1,896,473	\$ (60,848)	-3.1%	-1.9%
Pass-Through Costs					
Disposal & Processing Fees	\$ 690,534	\$ 757,436	\$ 66,902	9.7%	2.1%
Agency Franchise & Other Fees	\$ 304,701	\$ 305,190	\$ 489	0.2%	0.0%
Subtotal Pass-Through Costs	\$ 995,235	\$ 1,062,626	\$ 67,391	6.8%	2.1%
TOTAL REVENUE REQUIREMENT	\$ 2,952,556	\$ 2,959,099	\$ 6,543	0.2%	0.2%
2016 Estimated Surplus / <Shortfall>	\$ 182,500				
2017 Estimated Surplus / <Shortfall>		\$ 175,689			
Required Revenue Adjustment			-5.6%		-5.6%
All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	Menlo Park				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 10,164,462			
Projected Collection Revenue (After Rate Increase)	\$ 10,167,156				
2016 Base Revenue Surplus / <Shortfall>			\$ (311,380)		3.1%
Total Contractor's Compensation					
Base Compensation	\$ 5,941,501	\$ 5,763,377	\$ (178,124)	-3.0%	-1.8%
Agency Specific Contract Changes	\$ 24,429.00	\$ 24,529.00	\$ 100.00	0.4%	0.0%
Incentives / Disincentives	\$ 2,255	\$ (1,199)	\$ (3,454)	-153.2%	0.0%
Total Contractor's Compensation	\$ 5,968,185	\$ 5,786,707	\$ (181,478)	-3.0%	-1.8%
Pass-Through Costs					
Disposal & Processing Fees	\$ 2,812,371	\$ 3,123,638	\$ 311,266	11.1%	3.1%
Agency Franchise & Other Fees	\$ 1,695,285	\$ 1,697,059	\$ 1,774	0.1%	0.0%
Subtotal Pass-Through Costs	\$ 4,507,657	\$ 4,820,697	\$ 313,040	6.9%	3.1%
TOTAL REVENUE REQUIREMENT	\$ 10,475,841	\$ 10,607,404	\$ 131,562	1.3%	1.3%
2016 Estimated Surplus / <Shortfall>	\$ (308,685)				
2017 Estimated Surplus / <Shortfall>		\$ (442,942)			
Required Revenue Adjustment		4.4%			4.4%
All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	North Fair Oaks				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 2,716,649			
Projected Collection Revenue (After Rate Increase)	\$ 2,699,986				
2016 Base Revenue Surplus / <Shortfall>			\$ 21,985		-0.8%
Total Contractor's Compensation					
Base Compensation	\$ 1,744,455	\$ 1,725,366	\$ (19,089)	-1.1%	-0.7%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 848	\$ (399)	\$ (1,247)	-147.0%	0.0%
Total Contractor's Compensation	\$ 1,745,303	\$ 1,724,967	\$ (20,336)	-1.2%	-0.7%
Pass-Through Costs					
Disposal & Processing Fees	\$ 804,619	\$ 898,175	\$ 93,555	11.6%	3.4%
Agency Franchise & Other Fees	\$ 144,742	\$ 145,874	\$ 1,132	0.8%	0.0%
Subtotal Pass-Through Costs	\$ 949,361	\$ 1,044,049	\$ 94,688	10.0%	3.5%
TOTAL REVENUE REQUIREMENT	\$ 2,694,664	\$ 2,769,016	\$ 74,352	2.8%	2.7%
2016 Estimated Surplus / <Shortfall>	\$ 5,322				
2017 Estimated Surplus / <Shortfall>		\$ (52,367)			
Required Revenue Adjustment		1.9%			1.9%

All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	Redwood City				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 18,269,382			
Projected Collection Revenue (After Rate Increase)	\$ 18,272,221				
2016 Base Revenue Surplus / <Shortfall>			\$ 230,852		-1.3%
Total Contractor's Compensation					
Base Compensation	\$ 10,207,515	\$ 9,981,163	\$ (226,352)	-2.2%	-1.2%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 5,802	\$ (3,003)	\$ (8,805)	-151.8%	0.0%
Total Contractor's Compensation	\$ 10,213,318	\$ 9,978,160	\$ (235,158)	-2.3%	-1.3%
Pass-Through Costs					
Disposal & Processing Fees	\$ 5,183,100	\$ 5,748,005	\$ 564,905	10.9%	3.1%
Agency Franchise & Other Fees	\$ 2,642,113	\$ 2,642,095	\$ (18)	0.0%	0.0%
Subtotal Pass-Through Costs	\$ 7,825,212	\$ 8,390,100	\$ 564,887	7.2%	3.1%
TOTAL REVENUE REQUIREMENT	\$ 18,038,530	\$ 18,368,260	\$ 329,729	1.8%	1.8%
2016 Estimated Surplus / <Shortfall>	\$ 233,690				
2017 Estimated Surplus / <Shortfall>		\$ (98,878)			
Required Revenue Adjustment		0.5%			0.5%

All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	San Carlos				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 8,121,499			
Projected Collection Revenue (After Rate Increase)	\$ 8,147,474				
2016 Base Revenue Surplus / <Shortfall>			\$ 105,185		-1.3%
Total Contractor's Compensation					
Base Compensation	\$ 5,018,791	\$ 5,029,382	\$ 10,591	0.2%	0.1%
Agency Specific Contract Changes	\$ (5,825.00)	\$ (5,567.00)	\$ 258.00	-4.4%	0.0%
Incentives / Disincentives	\$ 1,968	\$ (1,212)	\$ (3,180)	-161.6%	0.0%
Total Contractor's Compensation	\$ 5,014,933	\$ 5,022,603	\$ 7,670	0.2%	0.1%
Pass-Through Costs					
Disposal & Processing Fees	\$ 1,916,546	\$ 2,129,785	\$ 213,238	11.1%	2.6%
Agency Franchise & Other Fees	\$ 1,084,835	\$ 1,088,871	\$ 4,037	0.4%	0.0%
Subtotal Pass-Through Costs	\$ 3,001,381	\$ 3,218,656	\$ 217,275	7.2%	2.7%
TOTAL REVENUE REQUIREMENT	\$ 8,016,314	\$ 8,241,259	\$ 224,945	2.8%	2.8%
2016 Estimated Surplus / <Shortfall>	\$ 131,160				
2017 Estimated Surplus / <Shortfall>		\$ (119,760)			
Required Revenue Adjustment		1.5%			1.5%

All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	San Mateo				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 21,404,288			
Projected Collection Revenue (After Rate Increase)	\$ 21,411,388				
2016 Base Revenue Surplus / <Shortfall>			\$ 193,248		-0.9%
Total Contractor's Compensation					
Base Compensation	\$ 12,559,694	\$ 12,434,448	\$ (125,246)	-1.0%	-0.6%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 6,556	\$ (3,439)	\$ (9,995)	-152.5%	0.0%
Total Contractor's Compensation	\$ 12,566,250	\$ 12,431,009	\$ (135,241)	-1.1%	-0.6%
Pass-Through Costs					
Disposal & Processing Fees	\$ 5,612,194	\$ 6,222,719	\$ 610,524	10.9%	2.9%
Agency Franchise & Other Fees	\$ 3,032,595	\$ 3,096,525	\$ 63,930	2.1%	0.3%
Subtotal Pass-Through Costs	\$ 8,644,789	\$ 9,319,243	\$ 674,454	7.8%	3.2%
TOTAL REVENUE REQUIREMENT	\$ 21,211,039	\$ 21,750,252	\$ 539,213	2.5%	2.5%
2016 Estimated Surplus / <Shortfall>	\$ 200,349				
2017 Estimated Surplus / <Shortfall>		\$ (345,964)			
Required Revenue Adjustment		1.6%			1.6%

All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	West Bay				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 1,477,604			
Projected Collection Revenue (After Rate Increase)	\$ 1,477,943				
2016 Base Revenue Surplus / <Shortfall>			\$ (45)		0.0%
Total Contractor's Compensation					
Base Compensation	\$ 1,011,272	\$ 946,247	\$ (65,025)	-6.4%	-4.4%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 241	\$ (300)	\$ (541)	-224.2%	0.0%
Total Contractor's Compensation	\$ 1,011,513	\$ 945,948	\$ (65,565)	-6.5%	-4.4%
Pass-Through Costs					
Disposal & Processing Fees	\$ 370,765	\$ 411,227	\$ 40,462	10.9%	2.7%
Agency Franchise & Other Fees	\$ 95,370	\$ 96,594	\$ 1,224	1.3%	0.1%
Subtotal Pass-Through Costs	\$ 466,136	\$ 507,821	\$ 41,686	8.9%	2.8%
TOTAL REVENUE REQUIREMENT	\$ 1,477,649	\$ 1,453,769	\$ (23,879)	-1.6%	-1.6%
2016 Estimated Surplus / <Shortfall>	\$ 294				
2017 Estimated Surplus / <Shortfall>		\$ 23,834			
Required Revenue Adjustment			-1.6%		-1.6%
All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/13/2016	Unincorporated County				
	2017 Variance				
	2016 Estimated	2017 Estimated	2017 vs 2016 Change	2017 vs 2016 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$ 3,205,374			
Projected Collection Revenue (After Rate Increase)	\$ 3,205,757				
2016 Base Revenue Surplus / <Shortfall>			\$ 133,399		-4.2%
Total Contractor's Compensation					
Base Compensation	\$ 2,124,939	\$ 2,123,400	\$ (1,539)	-0.1%	0.0%
Agency Specific Contract Changes	\$ -	\$ -	\$ -	0.0%	0.0%
Incentives / Disincentives	\$ 345	\$ (403)	\$ (748)	-216.8%	0.0%
Total Contractor's Compensation	\$ 2,125,284	\$ 2,122,997	\$ (2,287)	-0.1%	-0.1%
Pass-Through Costs					
Disposal & Processing Fees	\$ 766,050	\$ 849,347	\$ 83,297	10.9%	2.6%
Agency Franchise & Other Fees	\$ 180,642	\$ 181,305	\$ 663	0.4%	0.0%
Subtotal Pass-Through Costs	\$ 946,691	\$ 1,030,652	\$ 83,960	8.9%	2.6%
TOTAL REVENUE REQUIREMENT	\$ 3,071,975	\$ 3,153,649	\$ 81,674	2.7%	2.5%
2016 Estimated Surplus / <Shortfall>	\$ 133,782				
2017 Estimated Surplus / <Shortfall>		\$ 51,725			
Required Revenue Adjustment			-1.6%		-1.6%

All numbers above are current estimates except 2016 Contractor's (Recology) Compensation which is final and 2017 Contractor's Compensation which is subject to Board Approval.



EXHIBIT B

MEMBER AGENCIES

REFUND AND PAYMENT

BALANCES

	Refunds from Recology to Member Agencies				Payments from Member Agencies to Recology			
	Year				Year			
Member Agency	2014	2015	2016	Total	2014	2015	2016	Total
Atherton	(\$895,936)	(\$279,189)		(\$1,175,125)				
Belmont								
Burlingame	(\$1,223,751)			(\$1,223,751)				
East Palo Alto								
Foster City								
Hillsborough								
Menlo Park						\$183,561	\$176,439	\$360,000
North Fair Oaks								
Redwood City	(\$1,294,907)			(\$1,294,907)				
San Carlos								
San Mateo								
West Bay Sanitary District	(\$32,545)	(\$35,586)		(\$68,131)				
County Unincorporated								
Total	(\$3,447,139)	(\$314,775)		(\$3,761,914)		\$183,561	\$176,439	\$360,000

Per the request of Menlo Park staff, the City's 2014 shortfall pre-payment to Recology of \$176,439 (E.2) was added to reflect the City's June 2016 payment to Recology of \$360,000. (The reconciliation of the 2014 shortfall would typically be accounted for with submittal of Recology's March 31, 2017 Revenue Reconciliation Report for Rate Year 2016.)

Footnote from Recology 2015 Revenue Reconciliation Report: "In June 2016, the City of Menlo Park remitted \$360,000 to Recology to pay the 2013 (\$160,011) and 2014 (\$176,439) shortfalls in accordance with the Staff Report dated 2/9/16, Agenda Item 1-2. Recology has applied the 2013 shortfall above. The application of the 2014 shortfall remittance will be included in the 2016 Revenue Reconciliation. The remaining \$23,550 of the \$360,000 remittance is applied to the 2015 Revenue Reconciliation, above."



STAFF REPORT

To: SBWMA Board Members
From: Cliff Feldman, Recycling Programs Manager
Date: September 22, 2016 Board of Directors Meeting
Subject: Update on Expiring Agreement with WM Curbside for Door-to-Door HHW Collection and Options

Recommendation

This staff report is to obtain direction from the Board for staff to proceed with one of the following two options:

1. Complete an Amendment to the contract with WM Curbside for the Board's consideration at the October Board meeting to extend the term of the agreement for five years based on the pricing proposal provided as **Attachment A**; or,
2. Proceed with notifying the Member Agencies and residents that the Door-to-Door HHW collection service will be discontinued effective January 1, 2017.

It is important to note that extending the contract with WM Curbside for five years only provides each Member Agency the opportunity to decide if they want to continue offering this service to their residents and does not result in a budget impact to the SBWMA. In addition, Member Agencies can discontinue the service at any time with sixty days notice.

Summary

On October 22, 2015 the Board approved the final one-year extension of contract between the SBWMA and WM Curbside, LLC to provide Door-to-Door Household Hazardous Waste (HHW) Collection Services that will now expire on December 31, 2016. The company has provided a pricing proposal to extend the current contract for five years (**Exhibit A**). If the contract with the SBWMA is extended, each Member Agency will be provided the opportunity to continue offering this service to their residents. If the contract is not extended, the service will be discontinued effective January 1, 2017 and staff will promptly commence implementing an outreach campaign informing all Member Agencies and residents that the service will be discontinued effective January 1, 2017.

Staff has explored several alternatives to supplementing the HHW related services provided by the County HHW Program, including 1) partnering with the County to use the Tower Road facility to reduce the cost of the Door-to-Door HHW Program, 2) partnering with Recology to provide Door-to-Door HHW collection service, and 3) contracting with an independent company to offer HHW collection events. The County also confirmed that use of the Tower Road facility to handle the materials collected through the Door-to-Door Program would not be feasible; Recology foresees that providing cost-effective collection service will be challenging; and, contracting for HHW collection events will be explored further by staff including a budget impact assessment.

The 2016 and the proposed 2017-2021 monthly cost to provide the Door-to-Door HHW collection service and the annual change in cost is provided in **Table 1** on the next page.

Table 1

2016 Cost and 2017-2021 Proposed Cost									
	Single-Family Dwelling (SFD)				Multi-Family Dwelling (MFD)				
Year	SFD Monthly Cost	Monthly Cost Variance	SFD Annual Cost	Annual Cost Variance	MFD Monthly Cost	Monthly Cost Variance	MFD Annual Cost	Annual Cost Variance	
2016	\$0.47		\$5.64		\$0.22		\$2.64		
2017	\$0.60	\$0.13	\$7.20	\$1.56	\$0.25	\$0.03	\$3.00	\$0.36	
2018	\$0.67	\$0.07	\$8.04	\$0.84	\$0.29	\$0.04	\$3.48	\$0.48	
2019	\$0.74	\$0.07	\$8.88	\$0.84	\$0.34	\$0.05	\$4.08	\$0.60	
2020	\$0.81	\$0.07	\$9.72	\$0.84	\$0.38	\$0.04	\$4.56	\$0.48	
2021	\$0.88	\$0.07	\$10.56	\$0.84	\$0.42	\$0.04	\$5.04	\$0.48	

* The annual cost adjustment is based on a fixed increase plus CPI as noted in **Exhibit A**.

The pricing in **Table 1** assumes 85,000 or more combined SFD and MFD customers participating and if less than 85,000 customers are participating the pricing increases due to loss of economy of scale. There are currently a total of approximately 144,000 (i.e., 93,000 SFD and 51,000 MFD) customers currently participating across all Member Agencies. **Table 2** below provides the total expense of the Door-to-Door HHW service for 2016 and 2017, the additional revenue needed to cover the 2017 cost increase, the Member Agency 2017 collection revenue at 2016 rates and the rate impact of the cost increase.

Table 2

Member Agency	Number of Single-Family Dwellings	Number of Multi-Family Dwellings	2016 Total Expense	2017 Total Expense	Increase in Revenue Needed for 2017 HHW Cost Increase	2017 Member Agency Collection Revenue at 2016 Rates (SBWMA Final Report Table 8)	2017 Rate Impact Percent of HHW Program Expense Increase
Atherton	2,340		\$13,198	\$16,848	\$3,650	\$3,097,872	0.118%
Belmont	6,759	3,973	\$48,609	\$59,154	\$10,544	\$6,516,852	0.162%
Burlingame	6,604	6,197	\$53,607	\$63,909	\$10,302	\$10,655,270	0.097%
EPA	4,155	3,068	\$31,534	\$38,016	\$6,482	\$4,537,544	0.143%
Foster City	6,747	5,144	\$51,633	\$62,159	\$10,525	\$5,559,729	0.189%
Hillsborough	3,646		\$20,563	\$26,251	\$5,688	\$3,134,788	0.181%
Menlo Park	7,829	4,651	\$56,434	\$68,647	\$12,213	\$10,164,462	0.120%
North Fair Oaks	2,626	178	\$15,281	\$19,377	\$4,097	\$2,716,649	0.151%
Redwood City	16,099	8,488	\$113,207	\$138,321	\$25,114	\$18,269,382	0.137%
San Carlos	8,608	2,992	\$56,448	\$69,876	\$13,428	\$8,121,499	0.165%
San Mateo	20,120	16,341	\$156,617	\$188,004	\$31,387	\$21,404,288	0.147%
WBSD	2,208		\$12,453	\$15,898	\$3,444	\$1,477,604	0.233%
County Uninc.	5,041	43	\$28,545	\$36,409	\$7,864	\$3,205,374	0.245%
SBWMA Total	92,782	51,075	\$658,128	\$802,868	\$144,740	\$98,861,313	0.146%
2016 Monthly Expense	\$0.47	\$0.22					
2017 Monthly Expense	\$0.60	\$0.25					

Table 3 provides the Total Rate Adjustment Percentage found as line F.3 of Table 8 in the SBWMA Final Report Reviewing the 2017 Recology Compensation Application and the change in these recommended rate adjustments if the 2017 HHW service cost increase is applied.

Table 3

Total Rate Adjustment Percentage (Line F.3 in Table 8)		
<u>Member Agency</u>	<u>Final Report Table 8</u>	<u>Table 8 with HHW Increase for 2017</u>
Atherton	-23.9%	-23.8%
Belmont	0.0%	0.2%
Burlingame	2.6%	2.7%
East Palo Alto	11.6%	11.7%
Foster City	-2.9%	-2.7%
Hillsborough	-41.9%	-41.7%
Menlo Park	9.6%	9.8%
NFO	-0.8%	-0.7%
Redwood City	-1.9%	-1.7%
San Carlos	-5.3%	-5.1%
San Mateo	2.3%	2.4%
WBSD	-1.6%	-1.4%
Uninc. County	-7.6%	-7.6%
Total SBWMA	-1.0%	-0.9%

Analysis

The JPA holds the master contract with WM Curbside to provide the Door-to-Door HHW Collection Services and each Member Agency subscribes to this service at its own discretion. Calendar year 2016 will mark the first full year that all Member Agencies participated in this program based on the Member Agencies commencing participation gradually over the prior five years:

- May 2010 - Belmont, Hillsborough, San Carlos and San Mateo
- August 2010 - Foster City, Menlo Park and West Bay Sanitary District
- March 2011 - East Palo Alto
- May 2012 - San Mateo County
- February 2013 - Burlingame
- March 2015 - Atherton and Redwood City

The Door-to-Door HHW Service collected over 2.1 million pounds of materials through 25,000 collections from the program's inception in 2010 through July 2016. The materials collected are banned from landfill disposal due to their potential toxicity to the environment and associated health and safety hazards. For example, these materials include poisons, corrosives, flammables and other toxic and hazardous waste. In addition, the Door-to-Door HHW Service collects computers, computer screens and other electronics, antifreeze, used motor oil/filters, automotive lead-acid, household batteries and sharps.

This service allows all residential and multi-family customers to schedule an unlimited number of collections each year for direct at home collection service. Residents interested in participating simply call the WM Curbside 1-800-HHW-PKUP hotline and request a "kit bag" to package their materials, then place it outside their home (e.g., in front of the garage door, on the front porch) on their collection day within the next two weeks for pick-up by WM Curbside (see an example of a promotional bill insert below). The primary alternative to the Door-to-Door Service is for

residents to schedule an appointment with the County HHW Program and then drive their materials to the County's Tower Road HHW Drop-off facility.

Door-to-Door Customer Satisfaction Survey

Residents that request Door-to-Door HHW collection service are provided a mail-back customer satisfaction survey. Over 5,500 surveys (approximately 20% of all participating customers) have been received and tabulated from 2010-2016, with the results provided below:

- Degree of satisfaction with the program:
 - 92.3% - Excellent/Very Good
 - 96.4% - Excellent/Very Good/Good

- Would you recommend the program to friends/neighbors?:
 - 96.0% - Yes

- Number of years the materials accumulated prior to collection:
 - 1-5 years - 41.0%
 - 6-10 years - 34.0%
 - 10+ years – 25.0%

- Have you ever used the San Mateo County Tower Road facility?:
 - 28.4% - Yes
 - 70.1% - No

Overall Customer Awareness of the Door-to-Door HHW Service Option

In 2012, the SBWMA conducted a statistically significant research survey of residential customers with Godbe Associates and the results affirmed the low level of awareness of the Door-to-Door HHW Service option. When asked if residents were aware of the program, 58.9% answered "no they were not aware," while 16.0% were aware and had used the program and another 25.1% were aware but did not use the program.

Partnering with the San Mateo County HHW Program to Use the County's Tower Road Facility

An option to provide a more environmentally sound and cost effective door-to-door collection program would be to reduce the amount of miles driven by the collection vehicles. The WM Curbside collection vehicles are housed at the company's facility in Tracy, CA and drive round-trip daily to collect from the SBWMA. WM Curbside looked to site their facility at closer locations including Hayward, San Jose and various sites in San Mateo County; however, for various cost and political reasons none were deemed feasible alternatives.

Staff requested the County HHW Program to entertain the idea of handling the materials collected through the Door-to-Door HHW Service at their Tower Road facility which would significantly reduce the required truck travel to/from Tracy each day. The County HHW Program was provided the detailed monthly participation and materials collected data from the last few years in order to determine if they had the capacity to store and package these materials for shipment. Unfortunately, the County HHW Program informed the SBWMA that it would not be feasible for them to handle the volume of materials generated by the Door-to-Door HHW Service at their Tower Road facility. Thus, it is evident that the combined HHW materials generated through the Door-to-Door Service and the County HHW Program cannot feasibly be handled by the County HHW Program.

Partnering with the San Mateo County HHW Program to Use the Shoreway Environmental Center

Staff will continue discussions with the County regarding a partnership to increase the opportunities for residents to safely and conveniently recycle and discard their HHW. One option that will be pursued is to develop a HHW drop-off facility at Shoreway which could benefit ratepayers by significantly increasing the existing drop-off capacity at Tower Road and additionally provide a convenient location along the 101 corridor. Pending discussions with the County, staff may include funding in the mid-year budget in January to pursue engineering and design work to develop a detailed cost analysis of expanding the services offered at Shoreway to include HHW drop-off.

Partnering with Recology

The SBWMA requested that Recology explore the idea of providing door-to-door HHW collection services, similar to those provided in San Francisco by Recology SF. Recology informed staff that they met with Recology SF program staff and remain open to the possibility of providing this service; however, the company is concerned about their ability to provide this service cost-effectively.

HHW Program Costs

RethinkWaste Door-to-Door HHW Service

The current monthly cost to provide door-to-door HHW collection service is \$0.47 per single-family home (i.e., \$5.64/year) and \$0.22 per multi-family living unit (i.e., \$2.64). This expense is included in the Member Agencies solid waste rates and has been adjusted twice since the program started in 2010 with \$0.01 increases the last two years only. The cost of this service allows each customer to obtain the service an unlimited number of times each year.

The contract extension includes a one-time increase of \$0.13 per month (\$1.56 for 2017) for SFD and annual \$0.07 (\$0.84/year) increases in subsequent years (please refer to **Table 1** above and **Exhibit A**). For MFD, the increase is \$0.03-\$0.05 per year. This pricing assumes 85,000 or more combined SFD and MFD customers participating and if less than 85,000 customers are participating the pricing increases due to loss of economy of scale. There are currently a total of approximately 144,000 (i.e., 93,000 SFD and 51,000 MFD) customers currently participating across all Member Agencies.

The cost of the Door-to-Door HHW service compares favorably to other far less convenient options for residents to safely discard their HHW materials. In 2015, approximately 4,500 Member Agency households used the Door-to-Door service, while 4,000 households delivered their materials to the County HHW Program Tower Road facility (located in San Mateo near Hwy 680 and Ralston Road). The total cost in 2015 for the SBWMA service area for the Door-to-Door service was approximately \$630,000, while the cost of the County's HHW Program was approximately \$1.26 million.

The Door-to-Door HHW Service contract has a "most favored nations" clause and therefore WM Curbside must provide the services to the SBWMA Member Agencies at a lower cost than offered to other Bay Area communities. The services provided by the San Mateo County HHW Program are similar to those provided by other nearby counties for similar costs. **Table 4** on the next page provides examples of the other WM Curbside Door-to-Door programs in the Bay Area and county operated permanent HHW drop-off facility costs for other Bay Area jurisdictions.

Table 4

Door-to-Door HHW Collection Services and County Permanent HHW Drop-off Facilities Costs						
Program Type	Jurisdictions	2016			2017	
		Annual Cost	Single-Family Household Monthly Cost	Multi-Family Dwelling Monthly Cost	Single-Family Household Monthly Cost	Multi-Family Dwelling Monthly Cost
Door-to-Door HHW Collection Services	RethinkWaste ¹	\$630,000	\$0.46	\$0.22	TBD	TBD
	San Ramon ²	\$173,421	\$0.74	\$0.25	\$0.79	\$0.25
	Cupertino ³	\$105,270	\$0.51	\$0.39	\$0.51	\$0.39
County Permanent HHW Drop-Off Facility	San Mateo County (SBWMA users only ⁴)	\$1,263,000	\$1.13			
	Contra Costa County	\$2,500,000	\$1.10			
	Alameda County ⁵	\$7,700,000	\$1.23			
¹ RethinkWaste has 93,000 single-family and 47,000 multi-family customers. The current pricing is valid through December 31, 2016						
² San Ramon has 18,720 single-family and 6,140 multi-family customers. The current pricing is valid until September 30, 2016.						
³ Cupertino has 13,824 single-family and 4,416 multi-family customers. The current pricing is valid through December 31, 2016.						
⁴ The San Mateo County HHW Program reported that approximately 4,000 SBWMA households used their program in 2015 at a cost of \$1,263,000. The monthly cost is calculated based on dividing the 93,000 SBWMA single-family households into the County's 2015 total cost.						
⁵ The Alameda County HHW Program funds and operates three permanent facilities covering different areas of the County.						

San Mateo County Permanent HHW Drop-off Facility Program

The San Mateo County Department of Health (i.e., County HHW Program and Local Enforcement Agency) is funded by receiving approximately 51% of the \$9.83 per ton landfill surcharge fee imposed by the County on all solid waste tons deposited in County landfills. In 2015, approximately 530,307 tons were disposed, generating \$5.2 million for the County. The landfill surcharge fee is paid by the SBWMA as part of disposal expense for each ton of waste delivered to Ox Mountain Landfill (this is a pass-through expense for the SBWMA that is included in the tip fees paid by the Member Agencies and the public). In 2015, SBWMA disposal totaled approximately 217,000 tons and generated approximately \$2.1 million for the County.

The County HHW Program reported¹ to staff that 4,032 SBWMA customers used its services in 2015, which includes delivering materials to their Tower Road facility, for a total cost of approximately \$1,263,000 or \$313.24 per customer. Spreading this cost across the SBWMA single-family households, the monthly cost per household was approximately \$1.13 in 2015.

Table 5 on the next page provides a summary of the SBWMA Door-to-Door Service and County HHW Program resident participation and cost to provide HHW related services to the RethinkWaste service area in 2015.

Table 5

¹ The participation data provided by the County is for calendar year 2015, while the cost information is for the County's FY 2014/15. The related information for the SBWMA is for calendar year 2015.

HHW Program Option	2015 Participation and Cost			
	# of Customers	% of Customers	Annual Cost	% of Annual Cost
RethinkWaste Door-to-Door Program	4,570	53.1%	\$630,000	33.3%
County HHW Tower Road Drop-Off Facility (SBWMA Households Only)	4,032	46.9%	\$1,263,000	66.7%
Total	8,602	100.0%	\$1,893,000	100.0%

WM Curbside San Ramon and Cupertino Door-to-Door HHW Programs

Presently only two other jurisdictions in the Bay Area are provided door-to-door HHW collection service (i.e., Cupertino and San Ramon) by WM Curbside, similar to the services provided to the SBWMA Member Agencies. On September 12, 2016 San Ramon's Finance Committee recommended extending their contract with WM Curbside through 2020 with pricing commencing in 2017 of \$0.79 per household, and this item will be considered by the City Council on September 27, 2016.

Background

On February 26, 2009 the SBWMA Board of Director's authorized staff to negotiate a contract with Curbside Inc. to provide door-to-door collection service of Household Hazardous Waste, Universal Waste, E-Scrap, Sharps and Medicine on behalf of Member Agencies that expressed an interest by April 2, 2009. Initially, seven Member Agencies expressed an interest to participate; however, all Member Agencies are currently provided the service.

On October 22, 2009, the SBWMA Board of Director's directed staff to execute a three year Agreement with Curbside Inc. (name of the company prior to WM Curbside, LLC) and this contract was executed on November 12, 2009 for service from January 1, 2010 through December 31, 2012. On November 18, 2010, the SBWMA Board approved Resolution No. 2010-36, authorizing the Executive Director to execute an extension to this contract for an additional two years through December 31, 2014. Resolution No. 2010-36 also provided the company authorization to assign the contract to WM Curbside, LLC and provided the SBWMA sole discretion to proceed with up to two one-year extensions. On October 22, 2015, the SBWMA Board approved Resolution No. 2015-28, authorizing the Executive Director to execute the final extension to this contract for an additional one year through December 31, 2016.

Fiscal Impact

There is no fiscal impact to the SBWMA associated with extending the contract for the Door-to-Door HHW Collection Service, because the cost of the program is a pass-through cost for the SBWMA and thus is paid directly by the Member Agencies as part of the solid waste rates charged to ratepayers. The SBWMA FY16/17 budget allocated \$80,000 for public education and outreach for this program.

Attachments:

Attachment A – Five-Year Contract Extension Pricing from WM Curbside

**WM Curbside Door-to-Door HHW Collection Service 5-Year Contract
Extension Pricing**

If 85,000 or more combined SFD and MFD households are participating:

	SFD Annual Pricing Adjustment = CPI + Fixed Increase				MFD Annual Pricing Adjustment = CPI + Fixed Increase		
Year	SFD Monthly Cost	CPI Amount ¹	Fixed Increase		MFD Monthly Cost	CPI Amount ¹	Fixed Increase
2016	\$0.47	\$0.01	\$0.00		\$0.22	\$0.01	\$0.00
2017	\$0.60	\$0.01	\$0.12		\$0.25	\$0.01	\$0.02
2018	\$0.67	\$0.01	\$0.06		\$0.29	\$0.01	\$0.03
2019	\$0.74	\$0.01	\$0.06		\$0.34	\$0.01	\$0.04
2020	\$0.81	\$0.02	\$0.05		\$0.38	\$0.01	\$0.03
2021	\$0.88	\$0.02	\$0.05		\$0.42	\$0.01	\$0.03

If less than 85,000 or more combined SFD and MFD households are participating:

	SFD Annual Pricing Adjustment = CPI + Fixed Increase				MFD Annual Pricing Adjustment = CPI + Fixed Increase		
Year	SFD Monthly Cost	CPI Amount ¹	Fixed Increase		MFD Monthly Cost	CPI Amount ¹	Fixed Increase
2016	\$0.47	\$0.01	\$0.00		\$0.22	\$0.01	\$0.00
2017	\$0.70	\$0.01	\$0.22		\$0.31	\$0.01	\$0.07
2018	\$0.75	\$0.01	\$0.04		\$0.34	\$0.01	\$0.02
2019	\$0.80	\$0.01	\$0.04		\$0.38	\$0.01	\$0.03
2020	\$0.86	\$0.02	\$0.04		\$0.41	\$0.01	\$0.02
2021	\$0.91	\$0.02	\$0.03		\$0.43	\$0.01	\$0.01

¹ Estimated result of annual CPI calculation prescribed in the current Agreement for 2017-2021.



Agenda Item 10C

Update on Franchise Agreement Negotiations Committee

Discussion item only at the September 22, 2016 Board of Directors Meeting

Discussion Item Only