



SBWMA **FINAL** REPORT REVIEWING THE 2020 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

September 19, 2019

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APPENDIX B – SBWMA Questions and Comments on Recology 2020 Compensation Application Issued June 28, 2019 (with Recology’s Responses Submitted on July 19, 2019)

APPENDIX C – Member Agency Questions and Comments on Recology 2020 Compensation Application (with Recology’s Responses)

APPENDIX D – Member Agency Variance Analysis of Total Collection Cost and Rate Impact Comparing 2020 with 2019

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) 2020 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 changes to various indices to the approved 2019 compensation to arrive at the 2020 compensation, allocating the 2020 compensation to the Member Agencies and adding the prior year's revenue reconciliation balances.

This **Final** Report provides the results of SBWMA's review of Recology's 2020 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. The total revenue requirement is the total cost of service including Recology compensation, disposal and processing costs, Member Agency fees, and prior years surplus/shortfalls owed to/from Recology.

Also provided is a variance summary of the Total Revenue Requirement from 2019 to 2020 by Member Agency, which includes Recology compensation and pass-through costs (see Table 7 and **Appendix D**). In addition, the SBWMA provides the total rate impact for each Member Agency (**see Table 8 on pages 15 and 16**) and recommended rate adjustment for 2020, 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 2020 Recology Compensation Application was submitted to the SBWMA and Member Agencies on June 14, 2019. On June 28, 2019 the SBWMA submitted questions and comments to Recology. No questions were submitted by Member Agencies (**Appendix C**). On July 19, 2019 Recology submitted a revised 2020 Compensation Application and responses to the SBWMA's questions and comments. **Appendix A** provides Part 1 of Recology's revised July 19 version of its 2020 Compensation Application.

Appendix B provides the SBWMA's questions and comments to Recology's Compensation Application, and Recology's response submitted on July 19. The SBWMA provided all Member Agencies their detailed revenue, agency fees, and disposal and processing cost projections for 2020 on July 22nd.

Table 1 on the next page shows the complete schedule to review and comment on Recology's Compensation Application. This **Final** Report provides the guidance for Member Agencies to adjust 2020 solid waste rates, if necessary.

Table 1
2019 Schedule to Approve Recology 2020 Compensation

Due Date	Milestone
June 14, 2019	Recology 2020 Compensation Application Submitted to Member Agencies and SBWMA
June 28, 2019	Member Agencies and SBWMA Comments Due to Recology
July 19, 2019	Revised Recology 2020 Compensation Application Submitted to Member Agencies and SBWMA
August 9, 2019	SBWMA Draft Report Reviewing the 2020 Recology Compensation Application Issued to Member Agencies
August 26, 2019	Member Agencies Written Comments on SBWMA Draft Report Due to SBWMA
September 12, 2019	SBWMA TAC Meeting: Staff Update and Discussion
September 12, 2019	SBWMA Final Report Issued to Member Agencies/Board
September 26, 2019	SBWMA Board Meeting: Consideration of Final Report

1.C Summary of Notable Items in the 2020 Recology Compensation Application

Notable items included in the 2020 Recology Compensation Application include:

- 2018 revenue reconciliation of surplus/shortfall and interest payments due to/from Recology (Table H in Recology Application, Appendix A).
- Performance Incentive/Disincentive payment to Recology of \$26,535 (Table F in Recology Application, Appendix A).
- Overall 2.7% Total Compensation increase even including a fuel index increase of 18.81% (Table E in Recology Application Appendix A).

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. Recology’s cost is allocated because service is based on the most efficient routing of trucks across agencies and not separated by agency. This provides the lowest overall cost. 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 2019. The statistics compiled from this Route Assessment are used to

allocate costs for 2020. Year to year variances are the result of several factors addressed by Recology in sections 3.2 and 3.3 of its Application (Appendix A).

1.E Recommendation

Based on the net results of the cost adjustments calculated in the 2020 Recology Compensation Application, SBWMA is recommending that the Board approve an adjustment to Recology's 2020 compensation as delineated in **Table 2** below. **Table 2** summarizes the adjusted 2020 costs and changes from 2019. The total change in Recology's compensation for 2020 is an increase of \$1,552,049 or 2.7% from 2019.

Table 2
Summary of Adjusted 2019 Costs to 2020 Costs

RECOLOGY COMPENSATION SUMMARY	2019 Cost	2020 Cost	\$ Change	% Change
Total Annual Cost of Operations	\$ 52,197,453	\$ 54,129,195	\$ 1,931,742	3.7%
Profit	5,479,291	5,682,070	202,780	3.7%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	\$ 57,676,744	\$ 59,811,265	\$ 2,134,522	3.7%
Contractor Pass-Through Costs				
Interest Expense	\$ 605,160	\$ 224,430	\$ (380,730)	-62.9%
Interest Expense on Implementation Cost	19,746	7,109	(12,637)	-64.0%
Contract Changes to Specific Agencies ¹	(411,065)	(548,116)	(137,051)	33.3%
Total Contractor Pass-Through Costs	\$ 213,841	\$ (316,577)	\$ (530,418)	-248.0%
BASE CONTRACTOR'S COMPENSATION	\$ 57,890,585	\$ 59,494,688	\$ 1,604,103	2.8%
Other Adjustments				
Performance Incentives / Disincentives	\$ 78,590	\$ 26,535	\$ (52,055)	66.2%
Total Other Adjustments	\$ 78,590	\$ 26,535	\$ (52,055)	66.2%
TOTAL CONTRACTOR'S COMPENSATION	\$ 57,969,175	\$ 59,521,224	\$ 1,552,049	2.7%
¹ Includes Agency specific contract changes (Hillsborough, Menlo Park, San Carlos, Atherton).				

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.

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 of Appendix A) illustrates graphically the cost adjustment process that is conducted each year. Cost adjustments are based primarily on changes in US DOL indices.

Final Year of Original Franchise Agreement 10-Year Term (Rate Years 2011-2020)

This 2020 Contractor's Compensation Adjustment Application is the final one of this original term. Please be advised that next year's process—the 2021 Contractor's Compensation Application (to be known as *Rate Year 11*)—will utilize a revised approach to these calculations, as negotiated during the Restated and Amended Franchise Agreement process that was completed on the Member Agencies behalf in 2018. As previously stated at many Board and TAC meetings during the past two years, Staff strongly recommend that each Member Agency continue to build its 2020 rate stabilization funds to help offset the step up in base costs between rate year 2020 (reflected in this document) and rate year 2021 (next year's process). The step up for each Member Agency is the delta between Recology proposed 2020 compensation and Attachment N of each Member Agency's Restated and Amended Contract, excluding the new Service Level Adjustment factor and Fuel Adjustment factor. As in the past, Staff is available to assist SBWMA TAC members to facilitate their transition into rate year 11.

2.B Annual Revenue Reconciliation

For rate years 2012 through 2020 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 **\$113** 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 2020).

The Recology 2018 Revenue Reconciliation Report was submitted to the SBWMA and Member Agencies on March 31, 2019. Staff reviewed this 2018 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 June 27, 2019 the Board reviewed agenda item 4D which included the audit findings and results (i.e., final 2018 surplus/shortfall and interest) of the revenue reconciliation that will be added to

or subtracted from Recology's 2020 compensation. Agencies can also request a refund of surplus balances or make payments to Recology for shortfalls. The final 2018 Revenue Reconciliation balances, net of payments, have been included in Recology's 2020 Compensation Application (see Table H of Appendix A).

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 19 based on staff comments. The questions and comments submitted to the company during the initial review period in June are provided in **Appendices B and C**.

SECTION 3 2020 RECOLOGY COMPENSATION APPLICATION

3.A Description of Compensation Adjustments

The 2020 Recology Compensation Application is based on adjusting 2019 cost categories by applying the changes in several indices to arrive at the 2020 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.

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.

Recology Annual Revenue Reconciliation Report for 2018. Recology submitted a Revenue Reconciliation Report for 2018 to the SBWMA on March 31, 2019 which compares the approved compensation owed to Recology for 2018 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 2018 surplus balance including interest is \$1,109,302 due from Recology before the payment to the Town of Atherton for their 2018 surplus of \$211,891 in August 2019. The balance due from Recology after the payment to the Town of Atherton is \$897,411, see B.1 on **Table 8**.

Performance Incentive/Disincentive Payments (and Liquidated Damages). Recology reported the 2017 Performance Incentives/Disincentives and Liquidated Damages calculations which was reviewed and

approved by the SBWMA. The total annual Recology recycling diversion incentive payment from 2011 to 2017 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)
- 2016 - \$175,789 (diversion incentive payment to Recology)
- 2017 - \$155,789 (diversion incentive payment to Recology)
- 2018 - \$59,830 (diversion incentive payment to Recology) (Table F, Appendix A)

Recology's 2018 diversion incentive payment is \$59,830. The diversion incentive payment is offset by Performance penalties. The net amount owed to Recology and added to Recology's 2020 compensation is \$26,535 (Table F in Recology's Application Appendix A).

Recurring Items

Three cities also have unique cost adjustments: Menlo Park has an additional cost for customer billing services (\$25,735) 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 (\$5,332), 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 (\$4,698).

The Town of Atherton also has an adjustment (\$107,290) because the Town has not approved the Amended and Restated Franchise Agreement at the time of the Recology report and thus the depreciation has been reduced by the increase in the new contract for new equipment, etc.

The Town of Hillsborough also negotiated a reduction in the cost of backyard service which is adjusted each year. The 2020 cost reduction is \$460,504.

3.B Adjustment of 2019 Compensation to 2020

As prescribed in Article 11, Attachment K and Attachment N of the Franchise Agreements, the adjustment of the 2019 compensation to 2020 compensation is predominantly based on the annual percentage change in select CPI indices applied to various cost categories including all labor cost categories.

Table 3 on the following page provides the detailed results from making all compensation adjustments from 2019 to 2020. The application of all adjustment factors to the costs approved in Recology's 2019 Compensation Application results in an overall increase in Recology's base 2020 compensation totaling \$1,604,104 or 2.89% from 2019. Performance Incentive (and Liquidated Damages) payments decreased by \$52,055. The result is a net increase in total contractor's compensation of \$1,552,049 or 2.7 % for 2020 from 2019. Please refer to **Table 3** on the next page.

**Table 3
Results of Adjustments of 2019 Costs to 2020 Costs**

RECOLOGY COMPENSATION DETAIL	2019 Cost	2020 Cost	% of Total Cost	\$ Change	% Change
Annual Cost of Operations					
Direct Labor-Related Costs					
Wages	\$ 17,587,978	\$ 18,115,147	30.4%	\$ 527,169	3.0%
Benefits	7,000,062	7,209,876	12.1%	209,815	3.0%
Payroll Taxes	1,463,320	1,507,180	2.5%	43,860	3.0%
Workers Compensation Insurance	1,532,964	1,572,090	2.6%	39,126	2.6%
Total Direct Labor Related-Costs	\$ 27,584,323	\$ 28,404,293	47.7%	\$ 819,970	3.0%
Direct Fuel Costs	2,709,935	3,219,672	5.4%	509,737	18.8%
Other Direct Costs	2,244,658	2,285,286	3.8%	40,628	1.8%
Depreciation		\$ -			
- Collection Vehicles	4,016,792	4,092,539	6.9%	75,747	1.9%
- Containers	1,882,550	1,882,550	3.2%	-	0.0%
Total Depreciation	\$ 5,899,342	\$ 5,975,088	10.0%	\$ 75,746	1.3%
Allocated Indirect Costs excluding Depreciation					
General and Administrative	\$ 7,571,631	\$ 7,762,589	13.0%	\$ 190,959	2.5%
Adjustment for Waste Zero Specialists	(404,456)	(209,612)	-0.4%	194,844	
Operations	1,882,346	1,944,364	3.3%	62,018	3.3%
Vehicle Maintenance	3,263,965	3,365,043	5.7%	101,077	3.1%
Container Maintenance	1,106,083	1,145,129	1.9%	39,046	3.5%
Total Allocated Indirect Costs excluding Depreciation	\$ 13,419,569	\$ 14,007,513	23.5%	\$ 587,944	4.4%
Total Allocated Indirect Depreciation Costs	152,451	50,168	0.1%	(102,283)	-67.1%
Annual Implementation Cost Amortization	187,175	187,175	0.3%	-	0.0%
Total Annual Cost of Operations	\$ 52,197,453	\$ 54,129,196	90.9%	\$ 1,931,743	3.7%
Profit	5,479,291	5,682,070	9.5%	202,780	3.7%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	\$ 57,676,744	\$ 59,811,266	100.5%	\$ 2,134,523	3.7%
Contractor Pass-Through Costs					
Interest Expense	\$ 605,160	\$ 224,430	0.4%	\$ (380,730)	-62.9%
Interest Expense on Implementation Cost	19,746	7,109	0.0%	(12,637)	-64.0%
Contract Changes to Specific Agencies	(411,065)	(548,116)	-0.9%	(137,051)	33.3%
Total Contractor Pass-Through Costs	213,841	(316,577)	-0.5%	(530,418)	-248.0%
BASE CONTRACTOR'S COMPENSATION	\$ 57,890,585	\$ 59,494,689	100.0%	\$ 1,604,104	2.8%
Other Adjustments					
Performance Incentives / Disincentives	78,590	26,535	0.0%	(52,055)	66.2%
Total Other Adjustments	78,590	26,535	0.0%	(52,055)	66.2%
TOTAL CONTRACTOR'S COMPENSATION	\$ 57,969,175	\$ 59,521,224	100.0%	\$ 1,552,049	2.7%

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)	3.00%	Index #1	The CBA wage & benefits adjustment is based on the change in a CPI Index.
Payroll Tax	3.00%	n/a	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes for 2018; therefore, the payroll tax expense changes in accordance with change in wages.
Worker's Compensation Insurance	2.55%	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 2019.
Depreciation - Containers	0.0%	n/a	No adjustment in 2019.
Non-CBA Labor	3.00%	Index #1	The Non-CBA Labor cost (management and supervisors) adjustment is based on the change in a CPI index.
Fuel	18.81%	Index #3	The Fuel expense is adjusted by the change in a fuel index.
Other Indirect Cost	1.81%	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	3.00%	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	2.55%	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	18.81%	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	1.81%	Index #4	80% of 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). Index change 2.26%.

3.C Recommended Adjustment to Recology's Compensation for 2020

Based on the net results of the compensation adjustments previously described and the analysis of the 2020 Recology Compensation Application, SBWMA is recommending that the SBWMA Board approve an adjustment to Recology's 2020 compensation as delineated in **Table 5 – Comparison of 2019 and 2020 Compensation**. The total adjustment to Recology's contractor's compensation is a 2.7% increase.

**Table 5
Comparison of 2019 and 2020 Compensation**

RECOLOGY COMPENSATION SUMMARY	2019 Cost	2020 Cost	\$ Change	% Change
Total Annual Cost of Operations	\$ 52,197,453	\$ 54,129,195	\$ 1,931,742	3.7%
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Total Contractor Pass-Through Costs	\$ 213,841	\$ (316,577)	\$ (530,418)	-248.0%
BASE CONTRACTOR'S COMPENSATION	\$ 57,890,585	\$ 59,494,688	\$ 1,604,103	2.8%
Other Adjustments				
Performance Incentives / Disincentives	\$ 78,590	\$ 26,535	\$ (52,055)	66.2%
Total Other Adjustments	\$ 78,590	\$ 26,535	\$ (52,055)	66.2%
TOTAL CONTRACTOR'S COMPENSATION	\$ 57,969,175	\$ 59,521,224	\$ 1,552,049	2.7%
¹ Includes Agency specific contract changes (Hillsborough, Menlo Park, San Carlos, Atherton).				

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 2020 are based on operational metrics compiled for each Member Agency by Recology in April/May 2019.

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.

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.

Table 6 – Member Agency Cost Allocation

BASE COLLECTION COSTS	2020 Costs													
	2020 Total	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	County Franchised Area
Annual Cost of Operations														
Direct Labor-Related Costs														
Wages for CBAs	\$18,115,147	\$426,311	\$1,185,310	\$1,787,979	\$756,178	\$1,090,723	\$818,479	\$1,844,089	\$506,127	\$3,140,313	\$1,538,078	\$4,036,591	\$309,833	\$675,138
Benefits for CBAs	\$7,209,876	\$171,047	\$476,653	\$694,112	\$302,264	\$427,293	\$331,767	\$727,478	\$203,692	\$1,255,964	\$616,645	\$1,605,040	\$124,932	\$272,988
Payroll Taxes	\$1,507,180	\$35,469	\$98,618	\$148,760	\$62,914	\$90,748	\$68,097	\$153,428	\$42,110	\$261,274	\$127,968	\$335,844	\$25,778	\$56,172
Workers Compensation Insurance	\$1,572,090	\$36,997	\$102,865	\$155,166	\$65,624	\$94,657	\$71,030	\$160,036	\$43,923	\$272,526	\$133,479	\$350,308	\$26,888	\$58,591
Total Direct Labor Related-Costs	\$28,404,293	\$669,823	\$1,863,445	\$2,786,017	\$1,186,980	\$1,703,421	\$1,289,374	\$2,885,030	\$795,852	\$4,930,076	\$2,416,170	\$6,327,783	\$487,432	\$1,062,889
Direct Fuel Costs	\$3,219,672	\$82,377	\$198,580	\$295,483	\$143,482	\$196,213	\$159,226	\$348,421	\$92,130	\$560,212	\$281,816	\$676,807	\$55,881	\$129,043
Other Direct Costs	\$2,285,286	\$56,511	\$141,062	\$215,410	\$100,937	\$139,922	\$108,383	\$250,445	\$64,813	\$398,198	\$198,734	\$483,316	\$38,454	\$89,101
Depreciation														
- Collection Vehicles	\$4,092,539	\$109,308	\$248,902	\$371,373	\$177,504	\$250,644	\$203,390	\$464,823	\$114,800	\$706,999	\$357,155	\$849,825	\$71,706	\$166,110
- Containers	\$1,882,550	\$58,891	\$122,224	\$162,241	\$81,070	\$113,719	\$61,006	\$179,552	\$58,162	\$340,209	\$169,243	\$417,482	\$36,443	\$82,307
Total Depreciation	\$5,975,088	168,199	371,125	533,614	258,574	364,363	264,396	644,375	172,962	1,047,208	526,398	1,267,307	108,150	248,417
Allocated Indirect Costs														
General and Administrative	\$7,762,589	\$120,146	\$482,498	\$705,836	\$374,932	\$477,402	\$183,135	\$785,568	\$230,011	\$1,455,226	\$741,588	\$1,790,331	\$121,703	\$294,213
Adjustment for Waste Zero Specialists	(\$209,612)	(\$242)	(\$9,163)	(\$27,589)	(\$7,326)	(\$9,809)	(\$121)	(\$22,564)	(\$9,486)	(\$40,264)	(\$23,371)	(\$54,936)	(\$646)	(\$4,097)
Operations	\$1,944,364	\$53,017	\$111,965	\$197,125	\$82,445	\$128,810	\$97,374	\$222,262	\$50,286	\$322,973	\$161,770	\$404,624	\$34,185	\$77,529
Vehicle Maintenance	\$3,365,043	\$91,755	\$193,774	\$341,157	\$142,684	\$222,927	\$168,521	\$384,661	\$87,028	\$558,957	\$279,970	\$700,268	\$59,163	\$134,177
Container Maintenance	\$1,145,129	\$27,205	\$71,210	\$104,790	\$51,381	\$71,199	\$28,146	\$122,782	\$32,828	\$208,417	\$104,146	\$261,983	\$18,273	\$41,769
Total Allocated Indirect Costs	\$14,007,513	\$291,880	\$850,283	\$1,321,319	\$644,117	\$890,530	\$478,054	\$1,492,711	\$390,667	\$2,505,310	\$1,264,104	\$3,102,269	\$232,679	\$543,591
Total Allocated Indirect Depreciation Costs	\$50,168	\$1,363	\$2,880	\$5,093	\$2,123	\$3,295	\$2,504	\$5,816	\$1,292	\$8,335	\$4,164	\$10,430	\$875	\$1,998
Annual Implementation Cost Amortization	\$187,175	\$5,240	\$11,176	\$16,570	\$8,581	\$10,577	\$10,185	\$19,919	\$5,392	\$32,591	\$16,506	\$38,873	\$3,484	\$8,081
Total Annual Cost of Operations	\$54,129,196	1,275,393	3,438,553	5,173,505	2,344,793	3,308,321	2,312,121	5,646,717	1,523,109	9,481,931	4,707,892	11,906,786	926,955	2,083,120
Profit	\$5,682,070	\$133,881	\$360,953	\$543,075	\$246,139	\$347,282	\$242,709	\$592,749	\$159,884	\$995,341	\$494,199	\$1,249,884	\$97,305	\$218,670
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	\$59,811,266	\$1,409,274	\$3,799,506	\$5,716,581	\$2,590,932	\$3,655,603	\$2,554,830	\$6,239,467	\$1,682,993	\$10,477,272	\$5,202,090	\$13,156,669	\$1,024,259	\$2,301,791
Contractor Pass-Through Costs														
Interest Expense	\$224,430	\$5,810	\$13,887	\$20,987	\$9,613	\$13,849	\$8,971	\$24,897	\$6,515	\$39,547	\$19,689	\$48,179	\$3,786	\$8,701
Interest Expense on Implementation Cost	\$7,109	\$178	\$424	\$674	\$325	\$408	\$337	\$775	\$207	\$1,256	\$622	\$1,507	\$120	\$277
Contract Changes to Specific Agencies	(\$548,116)	(\$107,290)	\$0	\$0	\$0	\$0	(\$461,863)	\$25,735	\$0	\$0	(\$4,698)	\$0	\$0	\$0
BASE COMPENSATION	\$59,494,689	\$1,307,971	\$3,813,816	\$5,738,242	\$2,600,870	\$3,669,861	\$2,102,276	\$6,290,874	\$1,689,715	\$10,518,075	\$5,217,702	\$13,206,354	\$1,028,165	\$2,310,768
Incentives and Disincentives	\$26,535	\$293	\$997	\$4,015	\$1,846	\$1,453	\$315	\$2,612	\$894	\$5,772	\$1,758	\$5,840	\$597	\$141
TOTAL CONTRACTOR'S COMPENSATION 2020	\$59,521,224	\$1,308,264	\$3,814,813	\$5,742,257	\$2,602,716	\$3,671,314	\$2,102,591	\$6,293,486	\$1,690,610	\$10,523,847	\$5,219,461	\$13,212,194	\$1,028,762	\$2,310,910
TOTAL CONTRACTOR'S COMPENSATION 2019	\$57,969,175	\$1,424,499	\$3,614,257	\$5,746,003	\$2,461,288	\$3,595,489	\$1,977,912	\$5,919,965	\$1,686,263	\$10,445,524	\$5,163,310	\$12,732,046	\$1,020,981	\$2,181,637
Change in Contractor's Compensation	\$1,552,049	(\$116,235)	\$200,556	(\$3,746)	\$141,428	\$75,825	\$124,679	\$373,521	\$4,347	\$78,323	\$56,151	\$480,148	\$7,781	\$129,273
Percentage Change in Compensation	2.68%	-8.16%	5.55%	-0.07%	5.75%	2.11%	6.30%	6.31%	0.26%	0.75%	1.09%	3.77%	0.76%	5.93%

SECTION 4 2020 MEMBER AGENCY REVENUE REQUIREMENT OBLIGATIONS

4.A Components of Member Agency Revenue Requirement

The compensation to Recology for 2020 collection service is only one of several components that make up the total collection cost (i.e revenue requirement) 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 2020 tip fees at the Shoreway Environmental Center. Tonnage assumptions were provided to Member Agencies on July 22 for review.
2. Franchise fee – Franchise and other Member Agency fees and programs. Fee assumptions used for 2020 were provided by Member Agencies on July 22.
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, reduced cost for back yard service, and a credit for San Carlos for City-purchased kitchen pails and a credit for Atherton for additional depreciation in the Amended and Revised Agreement which they have not signed. If Atherton signs the new Agreement, the credit will be reversed.

4.C Cost Variance from 2019 to 2020

The variance in Total Revenue Requirement from 2019 to 2020 is shown in **Table 7** by cost category and the rate impact of each change. The 2020 total collection cost which includes the Recology compensation and other pass-through costs shows an average SBWMA rate increase of 0.0%. Noteworthy items include the following:

1. Base Revenue Surplus of \$1,893,826 with a rate impact of -1.7%.
2. The Total Contractor's compensation due to Recology increased \$1,552,049 from 2019 with an rate impact of a 1.4% increase.
3. Disposal and Processing Fees at Shoreway increased 0.6% with a rate impact of 0.2%. There are no tip fee increases projected for 2020.

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 cause a variance by Member Agency include: fluctuations in revenue, changes in Recology's cost allocation, changes in Member Agency fees and changes in collected tons.

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

COLLECTION RATE VARIANCE ANALYSIS <small>estimated 8/9/2019</small>	SBWMA TOTAL				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$112,903,860			
Projected Collection Revenue (After Rate Increase)	\$112,633,864				
2019 Base Revenue Surplus / <Shortfall>			\$1,893,826		-1.7%
Total Contractor's Compensation					
Base Compensation	\$58,301,649	\$60,042,805	\$1,741,156	3.0%	1.5%
Agency Specific Contract Changes	(\$411,065)	(\$548,116)	(\$137,051)	33.3%	-0.1%
Incentives / Disincentives	\$78,590	\$26,535	(\$52,055)	-66.2%	0.0%
Total Contractor's Compensation	\$57,969,175	\$59,521,224	\$1,552,049	2.7%	1.4%
Other Pass-Through Costs					
Disposal & Processing Fees	\$37,258,616	\$37,480,719	\$222,103	0.6%	0.2%
Agency Franchise & Other Fees	\$15,782,243	\$15,882,621	\$100,378	0.6%	0.1%
Subtotal Other Pass-Through Costs	\$53,040,859	\$53,363,340	\$322,481	0.6%	0.3%
TOTAL REVENUE REQUIREMENT	\$111,010,034	\$112,884,564	\$1,874,530	1.7%	1.7%
2019 Estimated Surplus / <Shortfall>	\$1,623,830				
2020 Estimated Surplus / <Shortfall>		\$19,297			
Required Revenue Adjustment		0.0%			0.0%

All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 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 2020 and are summarized in **Table 8**. The amounts shown in Table 8 reflect estimated balances at December 31, 2020 before any 2020 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 2020. The Total Rate Adjustment Percentage (line **F.3**) is derived from comparing the 2020 base revenue at 2019 rates on line **A.1** to the total cumulative revenue requirement (line **F.1**) which in total results in a shortfall balance (line **F.2**) and the recommended rate adjustment (line **F.3**). All prior year's surplus/shortfall balances are net of payments to/from Member Agencies and Recology. The following provides an explanation of the sections in **Table 8**.

- **Section A** – This section provides the estimated 2020 Collection Revenue using 2019 rates (**A.1**), the 2020 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2020 Revenue Requirement (**A.7**), the estimated 2020 Surplus/Shortfall balance with Recology (**A.8**), Agency Fees on shortfalls (**A.9**), and the Rate Adjustment Percentage (**A.10**). *The overall SBWMA rate adjustment is a 0.1% increase; however, each Member Agency has a different adjustment percentage.*
- **Section B** – This section provides the results of the 2018 Recology Revenue Reconciliation surplus/shortfall, including 2016 close out, that must be added to the 2020 rate adjustment. *The overall SBWMA rate adjustment is a 0.8% decrease; however, each Member Agency has a different rate adjustment percentage.*
Consider eliminating section C and eliminating B3, C3, and D5.
- **Section C** – This section provides the 2020 Required Rate Adjustment which is the sum of sections A and B. **The overall SBWMA rate adjustment is positive 0.7%; however the rate adjustment percentage varies between the Member Agencies.**
- **Section D** – This section provides the “2019 Estimated Surplus/Shortfall” balance with Recology (**D.1**), the final 2017 surplus/shortfall (**D.2**) and the associated Agency Fees on any net estimated shortfall (**D.4**).
- **Section E** – This section includes an adjustment for Belmont’s unique agreement with Recology.
- **Section F** – This section provides the “Cumulative Revenue Requirement” of \$108,518,692 (**F.1**) and the cumulative surplus of \$4,385,166 (**F.2**) which includes the results of Sections C, D and E.
- **The overall SBWMA recommended rate adjustment is on line (F.3). Each Member Agency is obligated to set rates to generate its respective 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 in 2020 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									
as of 08/09/2019									
2020 Rate Year									
	Total	Atherton	Belmont	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park	
A. 2020 RATE YEAR									
A.1	2020 Collection Revenue @ 2019 Rates	\$112,903,860	\$3,159,495	\$7,115,550	\$11,665,532	\$5,302,958	\$6,214,896	\$3,141,757	\$13,002,104
A.2	Total Recology Compensation	\$59,521,224	\$1,308,264	\$3,814,813	\$5,742,257	\$2,602,716	\$3,671,314	\$2,102,591	\$6,293,486
A.3	Pass-Through Costs								
A.4	Disposal & Processing Fees	\$37,480,719	\$1,377,453	\$1,895,321	\$4,362,895	\$2,024,796	\$2,184,190	\$1,079,528	\$4,722,723
A.5	Agency Franchise Fees	\$15,882,621	\$325,362	\$1,872,092	\$1,933,859	\$706,305	\$395,085	\$287,590	\$2,207,345
A.6	Total Pass-Through Costs	\$53,363,340	\$1,702,815	\$3,767,412	\$6,296,754	\$2,731,101	\$2,579,275	\$1,367,118	\$6,930,068
A.7	2020 Revenue Requirement	\$112,884,564	\$3,011,079	\$7,582,225	\$12,039,011	\$5,333,817	\$6,250,589	\$3,469,709	\$13,223,554
A.8	2020 Surplus/(Shortfall) estimated	\$19,296	\$148,417	(\$466,676)	(\$373,479)	(\$30,859)	(\$35,693)	(\$327,952)	(\$221,449)
A.9	Agency Fees on A.8 Shortfall	(\$125,280)			(\$52,287)	(\$2,946)	(\$1,785)	(\$32,795)	(\$30,117)
A.10	Rate Adjustment Percentage (Associated with 2020 estimated Surplus/Shortfall)	0.1%	-4.7%		3.6%	0.6%	0.6%	11.5%	1.9%
<i>See Appendix D - Rate Variance Analysis for detail.</i>									
B. 2018 Final Surplus/(Shortfall)									
B.1	Surplus/(Shortfall) 2018 FINAL (incl. Interest)	\$897,411		(\$945,960)		\$118,513	\$188,516	\$512,679	\$317,600
B.2	Agency Fees on B.1 Shortfall	(\$9,358)							
B.3	Rate Adjustment Percentage (Associated with 2018 Final Surplus/Shortfall)	-0.8%				-2.2%	-3.0%	-16.3%	-2.4%
C. 2020 REQUIRED REVENUE ADJUSTMENT									
		\$782,069							
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$112,121,791	\$3,011,079	\$8,528,185	\$12,091,298	\$5,218,251	\$6,063,857	\$2,989,825	\$12,936,071
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	\$782,069	\$148,417	(\$1,412,636)	(\$425,766)	\$84,708	\$151,039	\$151,932	\$66,034
C.3	Rate Adjustment Percentage (C.2 / A.1)	-0.7%	-4.7%		3.6%	-1.6%	-2.4%	-4.8%	-0.5%
D. 2019 Estimated Surplus/(Shortfall)									
D.1	Surplus/(Shortfall), 2019 estimated	\$1,623,830	\$53,032	(\$254,649)	(\$329,508)	\$111,455	\$16,244	(\$190,252)	\$166,832
D.2	Surplus/(Shortfall) 2017 FINAL (incl. Interest)	(\$1,282,712)		(\$1,654,671)		(\$101,548)	\$41,260	\$480,114	(\$97,201)
D.3	Net Estimated 2019 Surplus/Shortfall	\$341,118	\$53,032	(\$1,909,320)	(\$329,508)	\$9,907	\$57,504	\$289,862	\$69,631
D.4	Agency Fees on D.3 Estimated Shortfall	(\$59,978)			(\$46,131)				
D.5	Rate Adjustment Percentage (Associated with 2019 Estimated Surplus/Shortfall)	-0.2%	-1.7%	26.8%	3.2%	-0.2%	-0.9%	-9.2%	-0.5%
E. Adjustments									
E.1	Miscellaneous Adjustment/Payment	\$3,321,956		\$3,321,956					
F. TOTAL RATE IMPACT									
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$108,518,694	\$2,958,047	\$7,115,550	\$12,466,937	\$5,208,343	\$6,006,353	\$2,699,963	\$12,866,439
F.2	Total Surplus/(Shortfall) (A.1 - F.1)	\$4,385,166	\$201,448		(\$801,405)	\$94,615	\$208,543	\$441,794	\$135,665
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-3.9%	-6.4%		6.9%	-1.8%	-3.4%	-14.1%	-1.0%

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

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
as of 08/09/2019							
2020 Rate Year							
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total	
A. 2020 RATE YEAR							
A.1	2020 Collection Revenue @ 2019 Rates	\$3,135,374	\$20,407,500	\$9,097,975	\$25,436,606	\$1,726,390	\$3,497,723
A.2	Total Recology Compensation	\$1,690,610	\$10,523,847	\$5,219,461	\$13,212,194	\$1,028,762	\$2,310,910
A.3	Pass-Through Costs						
A.4	Disposal & Processing Fees	\$1,069,904	\$6,942,759	\$2,675,627	\$7,528,421	\$542,709	\$1,074,393
A.5	Agency Franchise Fees	\$144,824	\$2,837,996	\$1,224,454	\$3,681,231	\$98,824	\$167,654
A.6	Total Pass-Through Costs	\$1,214,728	\$9,780,756	\$3,900,080	\$11,209,652	\$641,534	\$1,242,047
A.7	2020 Revenue Requirement	\$2,905,338	\$20,304,603	\$9,119,541	\$24,421,847	\$1,670,296	\$3,552,957
A.8	2020 Surplus/(Shortfall) estimated	\$230,037	\$102,897	(\$21,567)	\$1,014,759	\$56,094	(\$55,233)
A.9	Agency Fees on A.8 Shortfall			(\$2,588)			(\$2,762)
A.10	Rate Adjustment Percentage (Associated with 2018 estimated Surplus/Shortfall)	-7.3%	-0.5%	0.3%	-4.0%	-3.2%	1.7%
<i>See Appendix D - Rate Variance Analysis for detail.</i>							
B. 2018 Final Surplus/(Shortfall)							
B.1	Surplus/(Shortfall) 2018 FINAL (incl. Interest)	\$170,430	(\$68,556)	\$489,857	\$10,639	\$86,117	\$17,576
B.2	Agency Fees on B.1 Shortfall		(\$9,358)				
B.3	Rate Adjustment Percentage (Associated with 2018 Final Surplus/Shortfall)	-5.4%	0.4%	-5.4%	0.0%	-5.0%	-0.5%
C. 2020 REQUIRED REVENUE ADJUSTMENT							
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$2,734,908	\$20,382,517	\$8,632,272	\$24,411,208	\$1,584,179	\$3,538,142
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	\$400,467	\$24,984	\$465,702	\$1,025,398	\$142,211	(\$40,419)
C.3	Rate Adjustment Percentage (C.2 / A.1)	-12.8%	-0.1%	-5.1%	-4.0%	-8.2%	1.2%
D. 2019 Estimated Surplus/(Shortfall)							
D.1	Surplus/(Shortfall), 2019 estimated	\$176,019	\$119,792	\$64,747	\$1,548,027	\$70,285	\$71,807
D.2	Surplus/(Shortfall) 2017 FINAL (incl. Interest)	(\$9,174)	(\$221,233)	\$11,948	(\$123,050)	\$54,284	\$336,559
D.3	Net Estimated 2019 Surplus/Shortfall	\$166,845	(\$101,441)	\$76,695	\$1,424,977	\$124,569	\$408,366
D.4	Agency Fees on D.3 Estimated Shortfall		(\$13,847)				
D.5	Rate Adjustment Percentage (Associated with 2019 Estimated Surplus/Shortfall)	-5.3%	0.6%	-0.8%	-5.6%	-7.2%	-11.7%
E. Adjustments							
E.1	Miscellaneous Adjustment/Payment						
F. TOTAL RATE IMPACT							
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$2,568,063	\$20,497,805	\$8,555,577	\$22,986,231	\$1,459,610	\$3,129,777
F.2	Total Surplus/(Shortfall) (A1 - F1)	\$567,312	(\$90,304)	\$542,398	\$2,450,375	\$266,780	\$367,947
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-18.1%	0.4%	-6.0%	-9.6%	-15.5%	-10.5%

SECTION 5 CONCLUSION

The SBWMA's review of the 2020 Recology Compensation Application results in the recommendation to increase the 2020 compensation to Recology (i.e., Total Contractor's Compensation) by 2.7% (i.e., \$1,552,049) from the approved 2019 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, Appendix A.1.

The Member Agency snapshot report can be found in the Recology Application as Appendix 3. The 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 2020 vs. 2019; 3) detailed cost comparison of 2020 vs. 2019 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 2020 COMPENSATION
APPLICATION ISSUED ON
July 19, 2019

(PART I NARRATIVE
SECTIONS 1 – 4 ONLY)

SBWMA FINAL REPORT REVIEWING
THE RECOLOGY 2020
COMPENSATION APPLICATION

September 19, 2019

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Recology San Mateo County

Rate Year 2020 Application for Contractor's Compensation Adjustment

June 15, 2019



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June 15, 2019

Joe La Mariana
Executive Director
SBWMA/RethinkWaste
610 Elm Street, Suite 202
San Carlos, CA 94070

Subject: Rate Year 2020 Application for Contractor's Compensation Adjustment

Dear Mr. La Mariana:

Enclosed is Recology San Mateo County's Rate Year 2020 Application for Contractor's Compensation Adjustment, as provided for in Attachment K of the Franchise Agreement between Recology San Mateo County (RSMC) and each Member Agency of the South Bayside Waste Management Authority (SBWMA).

RSMC management accepts responsibility for the accuracy and completeness of the Application.

The Application is based on the Contractor's Compensation adjustment procedures addressed in Franchise Agreement Article 11 and in Attachment K to the Franchise Agreement.

All significant information and supporting documents relevant to the Contractor's Compensation adjustment process are available for review by SBWMA.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'Michael J. Sangiacomo', is written over a faint, light blue circular watermark.

Michael J. Sangiacomo
President and Chief Executive Officer
Recology Inc.

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EXECUTIVE SUMMARY

Overview of the Application

Recology San Mateo County (Recology) is pleased to submit our 2020 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 2020 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 2018 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 2018.

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 2020 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 1.81% (i.e., Other Indirect) to a 18.81% increase (i.e., Fuel). 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 3.7% increase in compensation before interest and incentives/disincentives adjustments.

Specific Issues for 2020 (Section 1)

Section 1.2 describes the specific issues for 2020, which include a calculation of performance incentives and disincentives. The net performance incentive payment is calculated at \$26,535. The Member Agency specific issues are discussed in detail in Section 1.3.

Results of the 2018 Revenue Reconciliation (Section 2)

Recology issued its 2018 Revenue Reconciliation Report to the SBWMA and its Member Agencies on March 31, 2019, 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 each Member Agency. The result was a surplus paid to Recology of \$1,109,302 in 2018 after adjustment for interest. The impact across the Member Agencies ranged from shortfalls in the Cities of Belmont of \$945,960 to a surplus in the Town of Hillsborough of \$512,679. Belmont actually has a different compensation agreement with Recology and thus the amount shown in the table below does not reflect their actual amount owed to Recology. The following table provides the results of the 2018 Revenue Reconciliation. Please note that the detailed Revenue Reconciliation information is provided in **Table H** on page 22.

<u>Member Agency</u>	<u>2018 Surplus or (Shortfall)</u>	<u>Interest Due (to)/from Recology</u>	<u>Total</u>
Atherton	\$211,891	\$0	\$211,891
Belmont	(\$945,960)	\$0	(\$945,960)
Burlingame	\$0	\$0	\$0
East Palo Alto	\$118,513	\$0	\$118,513
Foster City	\$188,516	\$0	\$188,516
Hillsborough	\$512,679	\$0	\$512,679
Menlo Park	\$317,600	\$0	\$317,600
North Fair Oaks	\$170,430	\$0	\$170,430
Redwood City	(\$68,556)	\$0	(\$68,556)
San Carlos	\$489,857	\$0	\$489,857
City of San Mateo	\$10,639	\$0	\$10,639
West Bay Sanitary District	\$86,117	\$0	\$86,117
County Franchised Area	\$17,576	\$0	\$17,576
Total	\$1,109,302	\$0	\$1,109,302

Results of the 2020 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 Hillsborough of 3.39% (\$83,984) to a decrease in Atherton of 3.47% (-\$50,852). It is important to note that each Member Agency total allocation percentage change (Difference % column) changed by less than four-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.

Percentage of Total Contractor's Compensation					
Total Cost Allocation					
	2019	2020	Difference %	Variance %	Difference \$
Atherton	2.44%	2.36%	-0.08%	-3.47%	\$ (50,852)
Belmont	6.19%	6.35%	0.16%	2.55%	\$ 94,994
Burlingame	9.84%	9.56%	-0.28%	-2.85%	\$ (168,057)
East Palo Alto	4.21%	4.33%	0.12%	2.83%	\$ 71,521
Foster City	6.16%	6.11%	-0.05%	-0.77%	\$ (28,374)
Hillsborough	4.13%	4.27%	0.14%	3.39%	\$ 83,984
Menlo Park	10.10%	10.43%	0.34%	3.33%	\$ 201,732
North Fair Oaks	2.89%	2.81%	-0.07%	-2.54%	\$ (44,030)
Redwood City	17.89%	17.52%	-0.37%	-2.06%	\$ (221,668)
San Carlos	8.86%	8.70%	-0.16%	-1.78%	\$ (94,825)
San Mateo	21.81%	21.99%	0.19%	0.86%	\$ 112,554
West Bay Sanitary	1.75%	1.71%	-0.04%	-2.05%	\$ (21,492)
County Franchised Area	3.74%	3.85%	0.11%	2.87%	\$ 64,516
Totals	100%	100%	0.00%	N/A	\$ 0

2020 Total Adjustment to Contractor's Compensation (Section 4)

The calculated adjustment for the Total Contractor's Compensation for Rate Year 2020 increased by \$1,552,049 or 2.7%. This total Contractor's Compensation adjustment for the SBWMA service area as a whole is summarized in the table on the next page.

	Compensation - 2019	Compensation - 2020	Change	% Change
Total Annual Cost of Operations	52,197,453	54,129,196	1,931,743	3.7%
Profit	5,479,291	5,682,070	202,780	3.7%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	57,676,744	59,811,266	2,134,523	3.7%
Total Contractor Pass-Through Costs	213,841	(316,577)	(530,418)	-248.0%
BASE CONTRACTOR'S COMPENSATION	57,890,585	59,494,689	1,604,104	2.8%
Other Adjustments				
Incentive / Disincentives	<u>78,590</u>	<u>26,535</u>	<u>(52,055)</u>	
Total Other Adjustments	78,590	26,535	(52,055)	
TOTAL CONTRACTOR'S COMPENSATION	57,969,175	59,521,224	1,552,049	2.7%

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 2020 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 payments 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 2020 increased by \$1,552,049 or 2.7%, to \$59,521,224 compared to the compensation approved for 2019. This total cost adjustment for the SBWMA service area as a whole is summarized in **Table A** below.

Table A

	Compensation - 2019	Compensation - 2020	Change	% Change
Total Annual Cost of Operations	52,197,453	54,129,196	1,931,743	3.7%
Profit	5,479,291	5,682,070	202,780	3.7%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	57,676,744	59,811,266	2,134,523	3.7%
Total Contractor Pass-Through Costs	213,841	(316,577)	(530,418)	-248.0%
BASE CONTRACTOR'S COMPENSATION	57,890,585	59,494,689	1,604,104	2.8%
Other Adjustments				
Incentive/Disincentive Payments	78,590	26,535	(52,055)	
TOTAL CONTRACTOR'S COMPENSATION	57,969,175	59,521,224	1,552,049	2.7%

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

Please note that the figures in the above **Table A** 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 Total Contractor's Compensation for service.

Table B

BASE COLLECTION COSTS	2020 Costs													
	2020 Total	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	County Franchised Area
Annual Cost of Operations														
Direct Labor-Related Costs														
Wages for CBAs	\$18,115,147	\$426,311	\$1,185,310	\$1,787,979	\$756,178	\$1,090,723	\$818,479	\$1,844,089	\$506,127	\$3,140,313	\$1,538,078	\$4,036,591	\$309,833	\$675,138
Benefits for CBAs	\$7,209,876	\$171,047	\$476,653	\$694,112	\$302,264	\$427,293	\$331,767	\$727,478	\$203,692	\$1,255,964	\$616,645	\$1,605,040	\$124,932	\$272,988
Payroll Taxes	\$1,507,180	\$35,469	\$98,618	\$148,760	\$62,914	\$90,748	\$68,097	\$153,428	\$42,110	\$261,274	\$127,968	\$335,844	\$25,778	\$56,172
Workers Compensation Insurance	\$1,572,090	\$36,997	\$102,865	\$155,166	\$65,624	\$94,657	\$71,030	\$160,036	\$43,923	\$272,526	\$133,479	\$350,308	\$26,888	\$58,591
Total Direct Labor Related-Costs	\$28,404,293	\$669,823	\$1,863,445	\$2,786,017	\$1,186,980	\$1,703,421	\$1,289,374	\$2,885,030	\$795,852	\$4,930,076	\$2,416,170	\$6,327,783	\$487,432	\$1,062,889
Direct Fuel Costs	\$3,219,672	\$82,377	\$198,580	\$295,483	\$143,482	\$196,213	\$159,226	\$348,421	\$92,130	\$560,212	\$281,816	\$676,807	\$55,881	\$129,043
Other Direct Costs	\$2,285,286	\$56,511	\$141,062	\$215,410	\$100,937	\$139,922	\$108,383	\$250,445	\$64,813	\$398,198	\$198,734	\$483,316	\$38,454	\$89,101
Depreciation														
- Collection Vehicles	\$4,092,539	\$109,308	\$248,902	\$371,373	\$177,504	\$250,644	\$203,390	\$464,823	\$114,800	\$706,999	\$357,155	\$849,825	\$71,706	\$166,110
- Containers	\$1,882,550	\$58,891	\$122,224	\$162,241	\$81,070	\$113,719	\$61,006	\$179,552	\$58,162	\$340,209	\$169,243	\$417,482	\$36,443	\$82,307
Total Depreciation	\$5,975,088	\$168,199	\$371,125	\$533,614	\$258,574	\$364,363	\$264,396	\$644,375	\$172,962	\$1,047,208	\$526,398	\$1,267,307	\$108,150	\$248,417
Allocated Indirect Costs														
General and Administrative	\$7,762,589	\$120,146	\$482,498	\$705,836	\$374,932	\$477,402	\$183,135	\$785,568	\$230,011	\$1,455,226	\$741,588	\$1,790,331	\$121,703	\$294,213
Adjustment for Waste Zero Specialists	(\$209,612)	(\$242)	(\$9,163)	(\$27,589)	(\$7,326)	(\$9,809)	(\$121)	(\$22,564)	(\$9,486)	(\$40,264)	(\$23,371)	(\$54,936)	(\$646)	(\$4,097)
Operations	\$1,944,364	\$53,017	\$111,965	\$197,125	\$82,445	\$128,810	\$97,374	\$222,262	\$50,286	\$322,973	\$161,770	\$404,624	\$34,185	\$77,529
Vehicle Maintenance	\$3,365,043	\$91,755	\$193,774	\$341,157	\$142,684	\$222,927	\$168,521	\$384,661	\$87,028	\$558,957	\$279,970	\$700,268	\$59,163	\$134,177
Container Maintenance	\$1,145,129	\$27,205	\$71,210	\$104,790	\$51,381	\$71,199	\$29,146	\$122,782	\$32,828	\$208,417	\$104,146	\$261,983	\$18,273	\$41,769
Total Allocated Indirect Costs	\$14,007,513	\$291,880	\$850,283	\$1,321,319	\$644,117	\$890,530	\$478,054	\$1,492,711	\$390,667	\$2,505,310	\$1,264,104	\$3,102,269	\$232,679	\$543,591
Total Allocated Indirect Depreciation Costs	\$50,168	\$1,363	\$2,880	\$5,093	\$2,123	\$3,295	\$2,504	\$5,816	\$1,292	\$8,335	\$4,164	\$10,430	\$875	\$1,998
Annual Implementation Cost Amortization	\$187,175	\$5,240	\$11,176	\$16,570	\$8,581	\$10,577	\$10,185	\$19,919	\$5,392	\$32,591	\$16,506	\$38,873	\$3,484	\$8,081
Total Annual Cost of Operations	\$54,129,196	1,275,393	3,438,553	5,173,505	2,344,793	3,308,321	2,312,121	5,646,717	1,523,109	9,481,931	4,707,892	11,906,786	926,955	2,083,120
Profit	\$5,682,070	\$133,881	\$360,953	\$543,075	\$246,139	\$347,282	\$242,709	\$592,749	\$159,884	\$995,341	\$494,199	\$1,249,884	\$97,305	\$218,670
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	\$59,811,266	\$1,409,274	\$3,799,506	\$5,716,581	\$2,590,932	\$3,655,603	\$2,554,830	\$6,239,467	\$1,682,993	\$10,477,272	\$5,202,090	\$13,156,669	\$1,024,259	\$2,301,791
Contractor Pass-Through Costs														
Interest Expense	\$224,430	\$5,810	\$13,887	\$20,987	\$9,613	\$13,849	\$8,971	\$24,897	\$6,515	\$39,547	\$19,689	\$48,179	\$3,786	\$8,701
Interest Expense on Implementation Cost	\$7,109	\$178	\$424	\$674	\$325	\$408	\$337	\$775	\$207	\$1,256	\$622	\$1,507	\$120	\$277
Contract Changes to Specific Agencies	(\$548,116)	(\$107,290)	\$0	\$0	\$0	\$0	(\$461,863)	\$25,735	\$0	\$0	(\$4,698)	\$0	\$0	\$0
BASE COMPENSATION	\$59,494,689	\$1,307,971	\$3,813,816	\$5,738,242	\$2,600,870	\$3,669,861	\$2,102,276	\$6,290,874	\$1,689,715	\$10,518,075	\$5,217,702	\$13,206,354	\$1,028,165	\$2,310,768
Incentives and Disincentives	\$26,535	\$293	\$997	\$4,015	\$1,846	\$1,453	\$315	\$2,612	\$894	\$5,772	\$1,758	\$5,840	\$597	\$141
Total Contractor Adjustments	\$26,535	\$293	\$997	\$4,015	\$1,846	\$1,453	\$315	\$2,612	\$894	\$5,772	\$1,758	\$5,840	\$597	\$141
TOTAL CONTRACTOR'S COMPENSATION	\$59,521,224	\$1,308,264	\$3,814,813	\$5,742,257	\$2,602,716	\$3,671,314	\$2,102,591	\$6,293,486	\$1,690,610	\$10,523,847	\$5,219,461	\$13,212,194	\$1,028,762	\$2,310,910

1.1.3. Cost Adjustment Process

The 2020 Recology Compensation Application adjusts 2019 costs by applying the year-over-year changes in several United States Department of Labor indices. Additional compensation adjustments have been made for the 2018 Revenue Reconciliation Surplus/Shortfall, interest payments due to/from Recology and 2018 performance incentive/disincentive payments. In addition, several Member Agencies have specific adjustments (i.e., the Town of Hillsborough, the City of San Carlos, the Town of Atherton, 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 2020 adjustment to Recology's compensation are provided in **Table C** on the following page.

Table C

Cost Category	Cost Adjustment	Explanation
CBA Wages (Drivers)	3.00%	The wages adjustment is based on the CPI index described in Table 1 of Attachment K.
CBA Benefits (Drivers)	3.00%	The benefits adjustment is based on the CPI index described in Table 1 of Attachment K.
Payroll Tax (Drivers)	3.00%	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes for 2020; therefore, the payroll tax expense changes in accordance with change in wages.
Worker's Compensation Insurance (Drivers)	2.55%	The workers compensation insurance adjustment is based on an index which increased 2.55%.
Depreciation – Collection Vehicles	1.9%	Depreciation reflects the agreed upon amount for rate year 2020, which is an increase of 1.9% over the 2019 amount.
Depreciation - Containers	0.0%	No adjustment in 2019.
CBA (Mechanics and Clerical) Wages and Benefits	3.00%	The wages and benefits adjustments are based on the CPI index described in Table 1 of Attachment K.
Non-CBA Labor	3.00%	The adjustment is based on the CPI index described in Table 1 of Attachment K.
Fuel	18.81%	The Fuel expense is adjusted by the change in a fuel index of 18.81%.
Other Indirect	1.81%	The Other Indirect expense includes insurance, general office expense, safety, etc. Other Indirect expenses are adjusted by 80% of a CPI index change of 2.26%.

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>					
2019 APPROVED COSTS (not actual costs)			ADJUSTMENT		2020 CONTRACTORS COMPENSATION
CBA (wages & benefits)	+		Index adjustment beginning Rate Year 2014	=	Base plus Adjustment
Other Cost	+		Index	=	Base plus Adjustment
Fuel	+		Index	=	Base plus Adjustment
Depreciation	+		Change per Amended and Restated Franchise Agreement	=	Adjusted Depreciation
Allowable Profit					Profit calculated on total approved costs at Operating ratio in Proposal
Contractor Pass-Through Cost					
Interest			Interest is fixed on sliding scale based on final capital cost		Annual Interest Expense per Interest Schedule
Other			Actual cost; ie, regulatory fees, etc.		Actual Cost
2019 TOTAL BASE CONTRACTOR COMPENSATION	+		Total of all Costs Above	=	2020 TOTAL BASE CONTRACTOR COMPENSATION
<i>Note: The "CBA (wages & benefits)" row applies to the Collective Bargaining Agreements covering drivers, mechanics and clerical employees. Simplified - for illustration only.</i>					

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 \$819,970 or 3.0%, from the approved 2019 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, are as follows:

- 1) Wages for CBAs \$527,169.
- 2) Benefits for CBAs \$209,815.
- 3) Payroll tax expense has increased by \$43,860 due to the increase in wages described above. The actual payroll tax rate is unchanged from 2019.
- 4) The final component of Direct Labor-Related Costs, Workers' Compensation Insurance, increased by \$39,126 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. This index fluctuates greatly. The adjustment for 2020 is an increase of 18.8% or \$509,737 from 2019.

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 1.8% or \$40,628.

1.1.7. Depreciation on Collection Vehicles, Containers and Equipment

The depreciation for collection vehicles for Rate Year 2020 converted to the schedule found in Attachment N of the Amended and Restated Franchise Agreements. The result was an increase of 1.9% or \$75,747 compared to 2019.

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 4.4% or \$587,944.

Rate Year 2020 includes a \$209,612 reduction in cost for the agreed upon elimination of two Waste Zero Specialists. The impact of this elimination on Rate Year 2019 was \$404,456 because it included the adjustment for both 2018 and 2019. The two year

adjustment in 2019 was a result of timing of approvals for the Amended and Restated Franchise Agreements.

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 2020 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 increased 3.7% or \$2,134,523 and is made up of the items discussed. Applying the prescribed OR to the Total Annual Cost of Operations results in an increase in Profit for 2020 of 3.7% or \$202,780.

1.1.11. Contractor Pass-Through Costs

Contractor Pass-Through Costs are made up of any new Regulatory Agency Fees (no changes for 2020), 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 \$380,730 to \$224,430 for 2020. Interest Expense on Implementation Costs decreased by \$12,637 to \$7,109.

Table E

	Compensation - 2019	Compensation - 2020	Change	% Change
Annual Cost of Operations				
Direct Labor-Related Costs				
Wages for CBAs	17,587,978	18,115,147	527,169	3.0%
Benefits for CBAs	7,000,062	7,209,876	209,815	3.0%
Payroll Taxes	1,463,320	1,507,180	43,860	3.0%
Workers Compensation Insurance	1,532,964	1,572,090	39,126	2.6%
Total Direct Labor Related-Costs	27,584,323	28,404,293	819,970	3.0%
Direct Fuel Costs	2,709,935	3,219,672	509,737	18.8%
Other Direct Costs	2,244,658	2,285,286	40,628	1.8%
Depreciation				
- Collection Vehicles	4,016,792	4,092,539	75,747	1.9%
- Containers	1,882,550	1,882,550	-	0.0%
Total Depreciation	5,899,342	5,975,088	75,747	1.3%
Allocated Indirect Costs				
General and Administrative	7,571,631	7,762,589	190,959	2.5%
Adjustment for Waste Zero Specialists	(404,456)	(209,612)	194,844	-100.0%
Operations	1,882,346	1,944,364	62,018	3.3%
Vehicle Maintenance	3,263,965	3,365,043	101,077	3.1%
Container Maintenance	1,106,083	1,145,129	39,046	3.5%
Total Allocated Indirect Costs	13,419,569	14,007,513	587,944	4.4%
Total Allocated Indirect Depreciation Costs	152,451	50,168	(102,283)	-67.1%
Annual Implementation Cost Amortization	187,175	187,175	-	0.0%
Total Annual Cost of Operations	52,197,453	54,129,196	1,931,743	3.7%
Profit	5,479,291	5,682,070	202,780	3.7%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	57,676,744	59,811,266	2,134,523	3.7%
Contractor Pass-Through Costs				
Regulatory Agency Fees	-	-	-	
Interest Expense	605,160	224,430	(380,730)	-62.9%
Interest Expense on Implementation Cost	19,746	7,109	(12,637)	-64.0%
Contract Changes to Specific Agencies	(411,065)	(548,116)	(137,051)	
Total Contractor Pass-Through Costs	213,841	(316,577)	(530,418)	-248.0%
BASE CONTRACTOR'S COMPENSATION	57,890,585	59,494,689	1,604,104	2.8%
Other Adjustments				
Incentive / Disincentives	78,590	26,535	(52,055)	
Total Other Adjustments	78,590	26,535	(52,055)	
TOTAL CONTRACTOR'S COMPENSATION	57,969,175	59,521,224	1,552,049	2.7%

1.2. SPECIFIC ISSUES FOR 2020

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 calculated Performance Incentives/Disincentives payment for 2018 was an incentive payment to Recology of \$26,535.

Table F provides a breakdown by Member Agency.

Table F

Performance Incentive/Disincentive Payments 2018					
	<u>Performance Incentives and Disincentives</u>				
<u>Member Agency</u>	<u>SFD Missed P/U Events</u>	<u>Average Speed of Answer</u>	<u>90 Second Max Hold Time</u>	<u>Diversion</u>	<u>Net Incentives and Disincentives</u>
Atherton	\$50	\$6	\$367	(\$716)	(\$293)
Belmont	\$250	\$22	\$1,337	(\$2,606)	(\$997)
Burlingame	\$0	\$70	\$4,304	(\$8,389)	(\$4,015)
East Palo Alto	\$0	\$32	\$1,979	(\$3,857)	(\$1,846)
Foster City	\$150	\$28	\$1,719	(\$3,350)	(\$1,453)
Hillsborough	\$100	\$7	\$445	(\$867)	(\$315)
Menlo Park	\$100	\$47	\$2,907	(\$5,666)	(\$2,612)
North Fair Oaks	\$50	\$16	\$1,012	(\$1,973)	(\$894)
Redwood City	\$250	\$105	\$6,455	(\$12,583)	(\$5,772)
San Carlos	\$300	\$36	\$2,206	(\$4,301)	(\$1,758)
San Mateo	\$700	\$114	\$7,011	(\$13,665)	(\$5,840)
County Franchised Area	\$50	\$11	\$694	(\$1,352)	(\$597)
WBSD	\$100	\$4	\$259	(\$504)	(\$141)
Total	\$2,100	\$500	\$30,695	(\$59,830)	(\$26,535)
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 service 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 from backyard 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 2020 Contractor's Compensation for Hillsborough's Single Family Dwelling costs by \$460,504 and is combined with the Greenwaste cart cost adjustment described in **1.3.4** below. The combined credit adjustment is \$461,863 an increase of \$30,524 from 2019 (see Appendix 3-6, page 74).

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 \$4,698, 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 \$25,735, 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 \$24,888 will be deducted from Recology's compensation and is adjusted annually.

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 (\$23,529 for Rate Year 2020). The staff report for the July 12, 2010 Town Council agenda is included on page 90 of Part 2. The residents have requested 4,136 new green waste carts since January 1, 2011. An additional depreciation schedule can be found on page 93 of Part 2.

These amounts can be found on page 7 in **Table B** and are combined with the backyard service adjustment described in section **1.3.1** above for a total of \$461,863 vs. \$431,339 in 2019.

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.

1.3.6. Town of Atherton Depreciation Adjustment

The Town of Atherton has yet to approve the Amended and Restated Franchise Agreement. Part of that agreement includes an updated depreciation schedule that is effective Rate Year 2020. A reduction of \$107,290 has been made in compensation to adjust Atherton to the original franchise depreciation schedule. If Atherton approves the Amended and Restated Franchise Agreement in the future, \$107,290 will be added back into the compensation.

2. ANNUAL REVENUE RECONCILIATION

2.1. REVENUE RECONCILIATION FOR 2018 TO ACCOUNT FOR ANY SHORTFALL OR SURPLUS IN COMPENSATION PAID TO RECOLOGY

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 2018 Revenue Reconciliation was submitted on March 31, 2019 and is being audited by a third-party firm hired by the SBWMA. The submitted results are included in Recology's 2020 total compensation and reflect a subsequent payment by Burlingame of their 2016 shortfall.

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

Table G

2018 REVENUE RECONCILIATION PROCESS	
January 1, 2018 ¹	December 31, 2018
Approved 2018 Recology Compensation	2018 Actual Revenue Billed
+↓	-↓
2018 <u>Estimated</u> Disposal Expense	2018 <u>Actual</u> Disposal ² Expense Paid to SBWMA
+↓	-↓
2018 <u>Estimated</u> Agency Fees	2018 <u>Actual</u> Agency Fees Paid to Agency
+↓	-↓
Prior Period Surplus/Shortfall	Approved 2018 Recology Compensation (no changes)
=↓	=↓
2018 Approved Revenue Requirement	<u>Actual</u> Revenue Surplus/Shortfall Applied to 2020 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).

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 is credited back to the Member Agencies for Rate Year 2018.

The Revenue Reconciliation Report for Rate Year 2018 submitted by Recology on March 31, 2019 finds that Member Agencies in total have a surplus balance with Recology of \$1,109,302 including any applicable 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, 2019 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 2018) and one hundred percent (100%) of the difference during the immediately following Rate Year (Rate Year 2019). The interest rate is set at the prime rate plus one percent (1%). The prime rate this year is 4.25%. Therefore, interest is calculated at 5.25%.

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 approved by the SBWMA Board. If a Member Agency sets rates above those approved 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 approved 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 Recology 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 2018 Revenue Reconciliation shortfall amounts and included in the Rate Year 2020 Total Contractor's Compensation is included in **Table H**, page 22.

Recology San Mateo County
Rate Year 2020 Application for Contractor's Compensation Adjustment

June 15, 2019

Table H

Recology San Mateo County
 Revenue Reconciliation and Interest
 Rate Year 2018

	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	\$ 3,072,018	6,819,630	11,160,725	5,084,601	5,867,988	3,051,929	12,531,534	2,898,487	19,141,385	8,697,039	23,459,847	1,651,590	3,339,029	106,775,802
Less:														
Pass-Through Costs	1,464,045	3,350,600	5,539,362	2,450,132	2,213,821	1,164,145	5,954,444	1,065,035	8,717,267	3,398,348	10,230,094	556,197	1,085,144	47,188,634
Unscheduled and Intermittent Services	39,488	84,803	126,608	70,329	41,890	21,732	176,905	40,267	383,682	113,992	496,768	19,505	23,003	1,638,972
Net Revenue Billed	1,568,485	3,384,227	5,494,755	2,564,140	3,612,277	1,866,052	6,400,185	1,793,185	10,040,436	5,184,699	12,732,985	1,075,888	2,230,882	57,948,196
Approved Contractor's Compensation	1,356,594	3,607,764	5,727,633	2,327,694	3,443,040	1,945,283	5,720,090	1,698,894	10,197,274	5,171,300	12,556,375	975,092	2,179,819	56,906,852
2016 (Surplus)/Shortfall	(340,737)	722,423	177,230	110,865	(19,279)	(591,910)	340,771	(76,139)	(88,282)	(476,458)	165,971	14,679	33,487	(27,379)
Interest on 2016 (Surplus)/Shortfall	—	—	—	7,068	—	—	21,724	—	—	—	—	—	—	28,792
2016 (Surplus)/Shortfall before Payments	(340,737)	722,423	177,230	117,933	(19,279)	(591,910)	362,495	(76,139)	(88,282)	(476,458)	165,971	14,679	33,487	1,413
2016 Surplus Paid to Member Agencies	340,737	—	—	—	—	—	—	—	—	—	—	—	—	340,737
2016 Shortfall Paid to Recology	—	—	(177,230)	—	—	—	—	—	—	—	—	—	—	(177,230)
Adjusted 2016 (Surplus)/Shortfall	—	722,423	—	117,933	(19,279)	(591,910)	362,495	(76,139)	(88,282)	(476,458)	165,971	14,679	33,487	164,920
Total Due Recology San Mateo County for Rate Year 2018	1,356,594	4,330,187	5,727,633	2,445,627	3,423,761	1,353,373	6,082,585	1,622,755	10,108,992	4,694,842	12,722,346	989,771	2,213,306	57,071,772
Surplus/(Shortfall) for Rate Year 2018	\$ 211,891	(945,960)	(232,878)	118,513	188,516	512,679	317,600	170,430	(68,556)	489,857	10,639	86,117	17,576	876,424
Receipt of Rate Year 2018 Shortfall	—	—	232,878	—	—	—	—	—	—	—	—	—	—	232,878
Adjusted Surplus/(Shortfall) for Rate Year 2018	211,891	(945,960)	—	118,513	188,516	512,679	317,600	170,430	(68,556)	489,857	10,639	86,117	17,576	1,109,302
Interest to Recology	(1)	—	—	—	—	—	—	—	—	—	—	—	—	—
TOTAL REVENUE RECONCILIATION	211,891	(945,960)	—	118,513	188,516	512,679	317,600	170,430	(68,556)	489,857	10,639	86,117	17,576	1,109,302

(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 (2018) because the difference occurs throughout the year and to 100% of the difference in the immediately following year (2019) 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 2018 is 4.25%. There is no interest applicable to shortfalls for Rate Year 2018.

3. ALLOCATION OF COSTS TO THE MEMBER AGENCIES

3.1. EXPLANATION OF COST ALLOCATION PROCESS

After Recology's compensation is adjusted from 2019 to 2020 following the methodology described in Part 1, it is then allocated to each Member Agency. 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

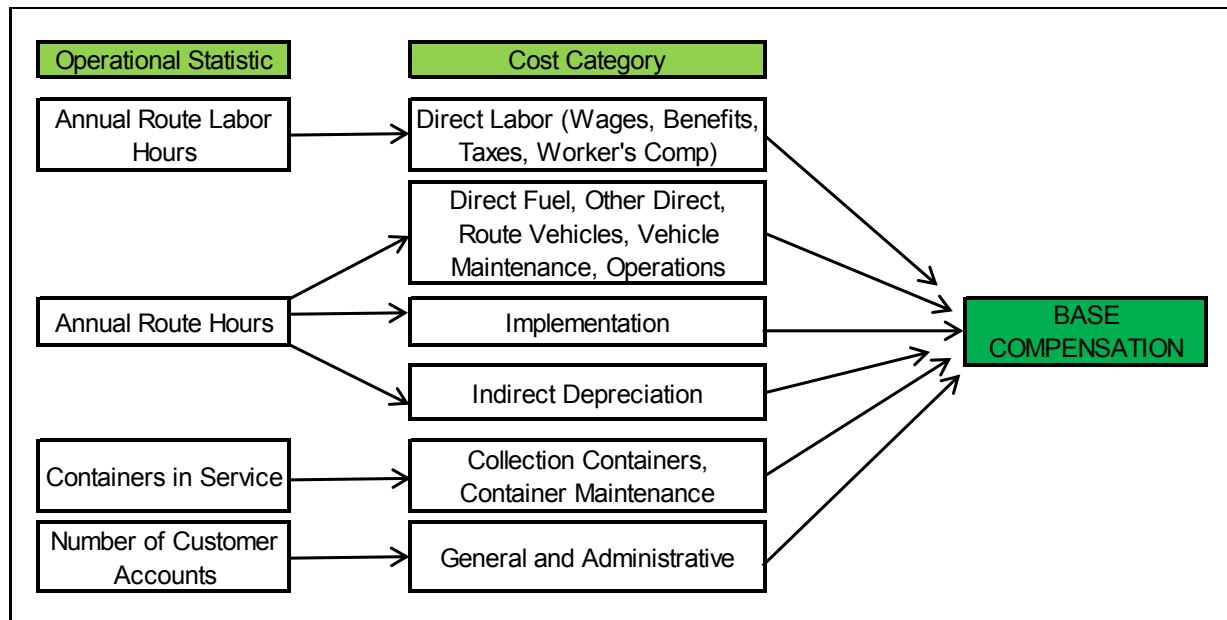
Recology conducted its Annual Route Assessment gathering four weeks of data points during April and May 2019 to determine the statistics that will be applied to each Member Agency. A summary of the metrics used for the cost allocation process are provided in Appendix 1-1. Refer to Appendix 1-2 and Appendix 1-3 on pages 34 and 35 for the detail of two statistics comparing 2019 to 2020 data by 17 service sectors by Member Agency (route labor hours and route hours). Route labor hours and route hours information is gathered for a four-week period in April and May for the specified rate year. The data presented in Appendix 1-2 and Appendix 1-3 is the annualized amount of the four-week route labor hours and route hours data.

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, total 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 - 2020			
City of Menlo Park Allocated Cost for SFD, Solid Waste Line of Business			
			Statistics
1	# of Accounts - City		7,817
	# of Accounts - Total SBWMA		94,885
	% of Accounts - City		8.2%
2	Total Route Labor hours year - City		3,993
	Total Route Labor hours year - Total SBWMA		46,298
	% Total Route Labor hours year - City		8.6%
3	# of route hours/year - City		3,575
	# of route hours/year - Total SBWMA		40,508
	% Total Route Labor hours year - City		8.8%
4	Total Containers in Service - City		7,932
	Total Containers in Service - Total SBWMA		96,897
	% Total Containers in Service - City		8.2%
		a	b
			c
	Service Sector: SFD	Line of Business	
		Solid Waste	Solid Waste
		SBWMA Total	MP Cost Allocation
	Annual Cost of Operations		(a x b)
	Direct Labor-Related Costs		
	Wages for CBAs	\$3,632,104	\$313,229
	Benefits for CBAs	\$1,437,152	\$123,939
	Payroll Taxes	\$302,191	\$26,061
	Workers Compensation Insurance	\$315,213	\$27,184
	Total Direct Labor Related-Costs	\$5,686,660	\$490,412
	Direct Fuel Costs	\$630,123	\$55,606
	Other Direct Costs	\$425,579	\$37,556
	Depreciation - Collection Vehicles	\$818,175	\$72,201
	Depreciation - Containers	\$428,963	\$35,115
	Depreciation for Collection Equipment	\$1,247,138	\$107,316
	Allocated Indirect Costs		
	General and Administrative	\$1,456,038	\$119,954
	Adjustment for Waste Zero Specialists	\$0	\$0
	Operations	\$364,707	\$32,184
	Vehicle Maintenance	\$631,185	\$55,700
	Container Maintenance	\$214,793	\$17,583
	Total Allocated Indirect Costs	\$2,666,722	\$225,422
	Total Allocated Indirect Depreciation Costs (Form 9)	\$9,312	\$822
	Annual Implementation Cost Amortization (Form A)	\$40,497	\$3,574
	Total Annual Cost of Operations	\$10,706,031	\$920,708
	Profit (from Operating Ratio below)	\$1,123,838	\$96,649
	90.5%	90.5%	90.5%
	Total Costs before Pass-Through Cost	\$11,829,869	\$1,017,357
	Contractor Pass-Through Costs		
	Interest Expense	\$42,081	\$3,621
	Interest Expense on Implementation Cost	\$1,337	\$118
	Total Contractor Pass-Through Costs	\$43,419	\$3,739
	BASE CONTRACTOR'S COMPENSATION - 2020	\$11,873,287	\$1,021,096
	Change %		
	<i>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</i>		

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

Attachment N Reference	<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 2019 and 2020, 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					
	2019	2020	Difference %	Variance %	Difference \$
Atherton	2.44%	2.36%	-0.08%	-3.47%	\$ (50,852)
Belmont	6.19%	6.35%	0.16%	2.55%	\$ 94,994
Burlingame	9.84%	9.56%	-0.28%	-2.85%	\$ (168,057)
East Palo Alto	4.21%	4.33%	0.12%	2.83%	\$ 71,521
Foster City	6.16%	6.11%	-0.05%	-0.77%	\$ (28,374)
Hillsborough	4.13%	4.27%	0.14%	3.39%	\$ 83,984
Menlo Park	10.10%	10.43%	0.34%	3.33%	\$ 201,732
North Fair Oaks	2.89%	2.81%	-0.07%	-2.54%	\$ (44,030)
Redwood City	17.89%	17.52%	-0.37%	-2.06%	\$ (221,668)
San Carlos	8.86%	8.70%	-0.16%	-1.78%	\$ (94,825)
San Mateo	21.81%	21.99%	0.19%	0.86%	\$ 112,554
West Bay Sanitary	1.75%	1.71%	-0.04%	-2.05%	\$ (21,492)
County Franchised Area	3.74%	3.85%	0.11%	2.87%	\$ 64,516
Totals	100%	100%	0.00%	N/A	\$ 0

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 C (Part 2, page 15) shows the allocation in percent by member agency.

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 all 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 have changed 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 four-tenths of 1 percent** from the prior year.

Atherton

During the Annual Route Assessment in 2019, there was major construction on Highway 101, as well as in and about Willow Road and Marsh Road. This construction had an impact on hours for Member Agencies in the southern portion of the SBWMA service area. As such, Atherton was affected by this major construction. With the completion of this road construction, there was a corresponding reduction in hours in the 2020 Route Assessment.

Hillsborough

Hillsborough's allocation changed from 4.13% to 4.27% of the total SBWMA. Due to Hillsborough's size relative to many other member agencies, this overall change of 0.14% created a 3.38% change, meeting the 3% threshold. In reviewing the data, 84% of the increase of Route Labor Hours is attributable to Single-Family Organics, which is the result of an 8.5% year-over-year increase in Single-Family Organics tons collected during

the Route Assessment. In addition, during the Route Assessment in 2019 there was a relief driver on a Single-Family Recyclable route and due to the difficult terrain and unfamiliarity with the area, there was an increase in Route Hours.

Menlo Park

Menlo Park had an increase of 598 annual debris box hauls, which is driving the increase in hours. A majority of the increase in hauls are attributable to Facebook. Debris box services are charged per haul, so there is a corresponding increase in billed revenue.

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 2019.

3.4.1. Route Hours by Line of Business

Route Hours by Line of Business identifies the time spent during the audit period by each route servicing customers by each 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). Four weeks of information were gathered during April and May 2019 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 were used.

Route Hours are made up of the hours route vehicles spend servicing the customers in each jurisdiction.

3.4.2. Route Labor Hours by Line of Business

The Route Labor Hours by Line of Business were generated by using information gathered during April and May 2019 using the daily Route Time & Distance by Franchise reports from our Routeware on-board computer system. 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 jurisdiction's 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.

3.4.3. 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, which was April 30, 2019.

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 April 30, 2019.

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 \$1,552,049 (2.7%) compensation adjustment including Performance Incentives/Disincentives.

Appendix 2-2 breaks out the Base Contractor's costs by line of business and shows an increase in compensation of 2.8% before the Performance Incentives/Disincentives. Single Family collection costs increased by 2.2%, Commercial and Multi-Family costs increased by 3.6% and Agency Facilities costs increased by 2.1%.

Appendix 2-3 shows the 2020 total costs including special and one-time adjustments by Member Agency. At the bottom of the table is a comparison to the 2019 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 2020 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 2019 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 2020 total costs including special adjustments by Member Agency. At the bottom of this table is a comparison to the 2019 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.

Allocated Costs by Service Sector and Line of Business provide the 2020 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 2019 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

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Recology San Mateo County Response to Questions from the SBWMA Regarding Recology's Rate Year 2020 Application for Contractor's Compensation Adjustment

Recology's responses to the SBWMA Questions and Comments are noted below in green:

SBWMA Comment: Table E shows a decrease in Indirect Depreciation of \$102,283 from 2019. In looking at the capital detail schedule, it appears that the New and Revised Contract capital schedule is not breaking out the Indirect depreciation as it was in the original Franchise Agreement capital schedule. Therefore, it appears that a reclass needs to be made reducing Collection Vehicle depreciation by \$102,283 and increasing Indirect Depreciation by the same amount. Please review and correct if warranted.

According to Section 11.02.F.2 of the Amended and Restated Franchise Agreement, in Rate Year Ten (2020), the vehicle depreciation shall be \$4,092,539. Correction to Table E not warranted.

SBWMA Comment: Please update the "Part 2. Tab Att. N-G. MA Services (revised)" cells D58-l60 table to reflect "CONTRACTOR'S COMPENSATION RATE YEAR 2019" data instead of RY 2018 data.

Correction will be made.

SBWMA Comment: Please clarify where hours statistics are annualized. Possibly add this to the footnote in Appendix 1 tables where appropriate.

Clarification will be included.

SBWMA Comment: Please update the Appendix 3 Tables for "Contractor's Base Compensation by Service Sector" to include the appropriate values (from the respective adjacent "Contractor's Compensation – Detail" tables) in the "Contract Changes to Specific Agencies" row, broken down by service sector (relevant for the 4 cities with such changes, i.e. Atherton, Hillsborough, Menlo Park and San Carlos).

Adjustment will be made.



Responses Related to Questions on Annual Changes in Operational Statistics:

As in years past, questions have been raised about changes in allocations, which have resulted in variances year over year for Member Agencies. As previously agreed upon, Recology has provided rationale related to increases or decreases in individual Member Agency year-to-year variances of 3% or more in Section 3.3 of the Application for Contractor's Compensation Adjustment (Part 1). 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. Regardless, Recology has devoted considerable time in researching what may have attributed to negligible variances, in an effort to answer the questions below:

SBWMA Comment: Hillsborough's increase in Single Family Organics Route Labor Hours is explained in the Report as being attributed to an increase of 8.5% in organic tons collected. Tons collected do not directly impact hours. Please clarify this explanation. Also, please explain why SFD Organic Route Labor Hours increase 14.2% over prior year, while SFD Organic Route hours only increase 2.8%. In addition, total SBWMA SFD Organics Route Labor Hours increased 5.6% compared to Hillsborough's 14.2% increase. Please explain.

As described above, the 8.5% increase in organics tons collected resulted in the Town of Hillsborough having an increase of 13 Transfer Station Loads in 2019 vs. 2018.

SBWMA Comment: Please explain County Franchise Area YOY increase in MFD/Commercial Recycling Route Labor Hours and Labor Hours.

Small changes in hours can create larger percentage changes due to the low number of hours required to service County Franchise Area accounts. The MFD/Commercial Recycling Annual Route Hours increased by approximately 15 minutes per day, while Annual Route Labor Hours increased by approximately 18 minutes per day. Soft factors, such as traffic conditions, weather, road closures or detours, proper improper set-outs, residential parking and/or blocked



commercial containers, can affect Route Hours and Route Labor Hours throughout the service area.

SBWMA Comment: Please explain East Palo Alto YOY increase in SFD Solid Waste Route Labor Hours and Route Hours.

The City of East Palo Alto fell under the 3% threshold for variance explanation. Recology reviewed the data and could not identify a specific cause for the change. Therefore, the YOY increase in East Palo Alto SFD Solid Waste Route Labor Hours and Route Hours may be attributable to various soft factors referenced above.

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The increase in MFD/Commercial Recycling Route Labor Hours and Route Hours in East Palo Alto may be attributable to various soft factors referenced above.

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Soft factors, such as traffic conditions, weather, road closures or detours, proper improper set-outs, residential parking and/or blocked commercial containers, can affect individual Member Agency Route Hours and Route Labor Hours differently throughout the service area.

SBWMA Comment: Please explain why Foster City's Commercial and MFD accounts decreased by 0.3%, while Route Labor Hours increased 7.5% and Route Hours increased 10.3%.

The number of Accounts does not necessarily correlate with the increase or decrease in the number of Route Hours and Route Labor Hours. The increase in Commercial and MFD Route Labor Hours and Route Hours in Foster City is attributable to various soft factors referenced above.

SBWMA Comment: Please explain why West Bay Sanitary District's Agency Lifts had no change, while Route Labor Hours increased 154.3% and Route Hours increased 149.6%.



Small changes in hours can create larger percentage changes due to the low number of hours required to service Member Agency Facilities. The main driver in the change for Route Labor Hours and Route Hours was Member Agency Facility Solid Waste, which increased on average 8 minutes per week for Annual Route Hours and Route Labor Hours. Therefore, the change is the result of soft factors referenced above.

SBWMA Comment: Please explain why County Franchise Area Agency Lifts decreased 23.8%, while Route Labor Hours increased 263.3% and Route Hours increased 242.8%.

Small changes in hours can create larger percentage changes due to the low number of hours required to service Member Agency Facilities. The main driver in the change for Route Labor Hours and Route Hours was Member Agency Facility Organics, which increased on average 20 minutes per week or 4 minutes per day. Therefore, the change is the result of soft factors referenced above.



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APPENDIX C

MEMBER AGENCY QUESTIONS AND COMMENTS ON RECOLOGY 2020 COMPENSATION APPLICATION WITH RECOLOGY'S RESPONSES

SBWMA FINAL REPORT REVIEWING THE 2020 RECOLOGY COMPENSATION APPLICATION

September 19, 2019

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County of San Mateo's Review of the RSMC Rate Year 2020 Contractor's Compensation

RSMC Rate Year 2020 Contractor's Compensation Adjustment Part 1			
Item	Section	Comments/Questions	Recology's Response
1	<i>Calculation of Contractor's Compensation Page 3 of 13</i>	Is an adjustment being made in Gen and Admin for Gino Gasparini's vacant position?	An adjustment has not been made to the rate application. Since Gino's departure RSMC hired an additional Operations Supervisor to provide the assistance that he accomplished in the field and his other duties have been assigned to other RSMC staff. This personnel change keeps the headcount neutral.
2	<i>Recology's San Mateo County, Rate Year 2020 Application for Contractor's Compensation Adjustment June 15, 2019, Allocation of Costs To The Member Agencies Page 5 of 8 (Report page 27)</i>	Please explain the variance for the County Franchised Area if the accounts have decreased?	Per our agreement with the SBWMA, Recology explains individual Member Agency variances in allocation percentages greater than 3%. Allocations are based on Route Hours and Route Labor Hours. A change in the number of accounts, may not directly affect the Route Hours and Route Labor Hours.
3	<i>Attachment N Service Metrics Used For Cost Allocations by Member Agency Appendix 1-1 page 1 of 1 (Report Page 33)</i>	Please explain the increase in labor hours for CFA, if the accounts have decreased? Please make an adjustment to the Member Agency costs for 2020 based upon the negotiated Amended Franchise Agreement for 2020.	Per our agreement with the SBWMA, Recology explains individual Member Agency variances in allocation percentages greater than 3%. Allocations are based on Route Hours and Route Labor Hours. A change in the number of accounts, may not directly affect the Route Hours and Route Labor Hours. The Amended and Restated Franchise Agreement Attachment N is not effective until RY 2021.

4	Attachment N Operational Information Appendix 1-2 page 1 of 1 (Report Page 34)	Please adjust the 2020 Member Agency labor hour costs for CFA based upon the negotiated Amended Franchise Agreement for 2020.	The Amended and Restated Franchise Agreement Attachment N is not effective until RY 2021.
5	Attachment N Operational Information Appendix 1-2, page 1 of 1 (Report Page 35)	Please adjust the 2020 Member Agency Line of Business costs for CFA based upon the negotiated Amended Franchise Agreement for 2020	The Amended and Restated Franchise Agreement Attachment N is not effective until RY 2021.
6	Attachment N Operational Information Appendix 1-4 page 1 of 1 (Report Page 36)	Please adjust the 2020 Member Agency Number for CFA based upon the negotiated Amended Franchise Agreement for 2020.	The Amended and Restated Franchise Agreement Attachment N is not effective until RY 2021.
7	Attachment N Operational Information Appendix 1-5, page 1 of 1 (Report Page 37)	Please adjust the 2020 Member Agency Number of Accounts by Line of Business for CFA based upon the negotiated Amended Franchise Agreement for 2020.	The Amended and Restated Franchise Agreement Attachment N is not effective until RY 2021.
8	Attachment N Contractors Compensation BY Service Sector Appendix 2-2 and Appendix 2-3 (Report Page 39 and 40)	Please adjust the 2020 Member Agency Costs for 2020 for both service areas based upon the negotiated Amended Franchise Agreement for 2020.	The Amended and Restated Franchise Agreement Attachment N is not effective until RY 2021.
9	Section Total Contractors Compensation By Member Agency Appendix 2-3 (report Page 40)	Please explain the \$448,256 (24.29%) difference in Contractor Compensation for CFA for 2020. Is there an error?	The TOTAL BALANCE TO CONTRACTOR - 2019 included a revenue reconciliation surplus of (336,559) and FY 2020 only includes a surplus of (17,576), creating a larger difference. There is no error.

RSMC Rate Year 2020 Contractor's Compensation Adjustment Part 2			
Item	Section	Comments/Questions	Recology's Response
	<i>Same Comments as noted above to the Appendix in Part 1.</i>		
1	<i>Operational Information Number of Containers in Service by Line of Business Page 1 of 1 (Report page 4)</i>	Can you explain provide details on what NFO accounts have roll-off or compactors?	The NFO account with a roll-off or compactor was identified as a BIC located at 50 Dumbarton Ave.
2	<i>Operational Information Annual Route Hours By Line of Business Page 1 of 1 (Report page 7)</i>	Same issue as above please modify the 2020 agency accounts for CFA and NFO based upon the terms in the Amended Franchise Agreements	The Amended and Restated Franchise Agreement Attachment N is not effective until RY 2021.
3	<i>Operational Information Annual Route Hours By Line of Business Page 1 of 1 (Report page 8)</i>	Please explain the change to the MFD and commercial increases in CFA for 2020	Due to the low amount of Annual Route Labor Hours (Report page 8) in CFA, small changes will create large percentage variances. The daily change in MFD/Commercial Recycling equates to approximately 18 minutes per day. The daily change in MFD/Commercial Organics equates to approximately 9 minutes per day.
4	<i>Operational Information Page 1 of 1 (Report Page 10)</i>	Please explain in your roster or your contract the personnel role of the Administrative Manager, Billing and Collection Manager, Customer Service Manager, Senior Finance Manager	The Administrative Manager provides oversight of the Customer Service and Waste Zero Departments, and coordinates activities with the Cities. The Billing and Collections Manager is responsible for billing accuracy and coordinates collections efforts The Customer Service Manager

			provides oversight of the day-to-day operation of the Customer Service Department. The Senior Finance Manager produces the Monthly, Quarterly, Annual and Ad-Hoc Reporting, as well as the submittal of RSMC's Compensation Application and Revenue Reconciliation.
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Overall Comment

1	Please provide a copy of the supporting documentation for the County areas as noted in your report.		The supporting documentation was forwarded to the County via email on June 27, 2019.
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APPENDIX D

MEMBER AGENCY VARIANCE ANALYSIS OF TOTAL COLLECTION COST AND RATE IMPACT

SBWMA FINAL REPORT REVIEWING THE 2020 RECOLOGY COMPENSATION APPLICATION

September 19, 2019

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COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	SBWMA TOTAL				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$112,903,860			
Projected Collection Revenue (After Rate Increase)	\$112,633,864				
2019 Base Revenue Surplus / <Shortfall>			\$1,893,826		-1.7%
Total Contractor's Compensation					
Base Compensation	\$58,301,649	\$60,042,805	\$1,741,156	3.0%	1.5%
Agency Specific Contract Changes	(\$411,065)	(\$548,116)	(\$137,051)	33.3%	-0.1%
Incentives / Disincentives	\$78,590	\$26,535	(\$52,055)	-66.2%	0.0%
Total Contractor's Compensation	\$57,969,175	\$59,521,224	\$1,552,049	2.7%	1.4%
Other Pass-Through Costs					
Disposal & Processing Fees	\$37,258,616	\$37,480,719	\$222,103	0.6%	0.2%
Agency Franchise & Other Fees	\$15,782,243	\$15,882,621	\$100,378	0.6%	0.1%
Subtotal Other Pass-Through Costs	\$53,040,859	\$53,363,340	\$322,481	0.6%	0.3%
TOTAL REVENUE REQUIREMENT	\$111,010,034	\$112,884,564	\$1,874,530	1.7%	1.7%
2019 Estimated Surplus / <Shortfall>	\$1,623,830				
2020 Estimated Surplus / <Shortfall>		\$19,297			
Required Revenue Adjustment		0.0%			0.0%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	Atherton				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$3,159,495			
Projected Collection Revenue (After Rate Increase)	\$3,159,495				
2019 Base Revenue Surplus / <Shortfall>			\$53,032		-1.7%
Total Contractor's Compensation					
Base Compensation	\$1,423,599	\$1,415,262	(\$8,337)	-0.6%	-0.3%
Agency Specific Contract Changes	\$0	(\$107,290)	(\$107,290)	\$0	-3.4%
Incentives / Disincentives	\$901	\$293	(\$608)	67.5%	0.0%
Total Contractor's Compensation	\$1,424,499	\$1,308,264	(\$116,236)	-8.2%	-3.7%
Other Pass-Through Costs					
Disposal & Processing Fees	\$1,356,602	\$1,377,453	\$20,851	1.5%	0.7%
Agency Franchise & Other Fees	\$325,362	\$325,362	\$0	0.0%	0.0%
Subtotal Other Pass-Through Costs	\$1,681,964	\$1,702,815	\$20,851	1.2%	0.7%
TOTAL REVENUE REQUIREMENT	\$3,106,463	\$3,011,079	(\$95,385)	-3.1%	-3.0%
2019 Estimated Surplus / <Shortfall>	\$53,032				
2020 Estimated Surplus / <Shortfall>		\$148,417			
Required Revenue Adjustment			-4.7%		-4.7%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	Belmont				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$7,115,550			
Projected Collection Revenue (After Rate Increase)	\$7,115,550				
2019 Base Revenue Surplus / <Shortfall>			(\$254,649)		3.6%
Total Contractor's Compensation					
Base Compensation	\$3,610,982	\$3,813,816	\$202,834	5.6%	2.9%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$3,275	\$997	(\$2,278)	69.6%	0.0%
Total Contractor's Compensation	\$3,614,257	\$3,814,813	\$200,556	5.5%	2.8%
Other Pass-Through Costs					
Disposal & Processing Fees	\$1,883,850	\$1,895,321	\$11,471	0.6%	0.2%
Agency Franchise & Other Fees	\$1,872,092	\$1,872,092	\$0	0.0%	0.0%
Subtotal Other Pass-Through Costs	\$3,755,942	\$3,767,412	\$11,471	0.3%	0.2%
TOTAL REVENUE REQUIREMENT	\$7,370,199	\$7,582,225	\$212,027	2.9%	3.0%
2019 Estimated Surplus / <Shortfall>			(\$254,649)		
2020 Estimated Surplus / <Shortfall>			(\$466,676)		
Required Revenue Adjustment			6.6%		6.6%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	Burlingame				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$11,665,532			
Projected Collection Revenue (After Rate Increase)	\$11,665,532				
2019 Base Revenue Surplus / <Shortfall>			(\$329,508)		2.8%
Total Contractor's Compensation					
Base Compensation	\$5,735,025	\$5,738,242	\$3,217	0.1%	0.0%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$10,978	\$4,015	(\$6,963)	63.4%	-0.1%
Total Contractor's Compensation	\$5,746,003	\$5,742,257	(\$3,746)	-0.1%	0.0%
Other Pass-Through Costs					
Disposal & Processing Fees	\$4,344,038	\$4,362,895	\$18,857	0.4%	0.2%
Agency Franchise & Other Fees	\$1,905,000	\$1,933,859	\$28,860	1.5%	0.2%
Subtotal Other Pass-Through Costs	\$6,249,037	\$6,296,754	\$47,717	0.8%	0.4%
TOTAL REVENUE REQUIREMENT	\$11,995,040	\$12,039,011	\$43,971	0.4%	0.4%
2019 Estimated Surplus / <Shortfall>	(\$329,508)				
2020 Estimated Surplus / <Shortfall>		(\$373,479)			
Required Revenue Adjustment		3.2%			3.2%

All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	E Palo Alto				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$5,302,958			
Projected Collection Revenue (After Rate Increase)	\$5,292,958				
2019 Base Revenue Surplus / <Shortfall>			\$121,455		-2.3%
Total Contractor's Compensation					
Base Compensation	\$2,456,002	\$2,600,870	\$144,868	5.9%	2.7%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$5,286	\$1,846	(\$3,440)	65.1%	-0.1%
Total Contractor's Compensation	\$2,461,288	\$2,602,716	\$141,428	5.7%	2.7%
Other Pass-Through Costs					
Disposal & Processing Fees	\$2,015,252	\$2,024,796	\$9,544	0.5%	0.2%
Agency Franchise & Other Fees	\$704,963	\$706,305	\$1,342	0.2%	0.0%
Subtotal Other Pass-Through Costs	\$2,720,215	\$2,731,101	\$10,886	0.4%	0.2%
TOTAL REVENUE REQUIREMENT	\$5,181,503	\$5,333,817	\$152,314	2.9%	2.9%
2019 Estimated Surplus / <Shortfall>	\$111,455				
2020 Estimated Surplus / <Shortfall>		(\$30,859)			
Required Revenue Adjustment		0.6%			0.6%

All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	Foster City				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$6,214,896			
Projected Collection Revenue (After Rate Increase)	\$6,184,896				
2019 Base Revenue Surplus / <Shortfall>			\$46,244		-0.7%
Total Contractor's Compensation					
Base Compensation	\$3,590,991	\$3,669,861	\$78,869	2.2%	1.3%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$4,497	\$1,453	(\$3,044)	67.7%	0.0%
Total Contractor's Compensation	\$3,595,489	\$3,671,314	\$75,825	2.1%	1.2%
Other Pass-Through Costs					
Disposal & Processing Fees	\$2,176,174	\$2,184,190	\$8,016	0.4%	0.1%
Agency Franchise & Other Fees	\$396,990	\$395,085	(\$1,905)	-0.5%	0.0%
Subtotal Other Pass-Through Costs	\$2,573,163	\$2,579,275	\$6,111	0.2%	0.1%
TOTAL REVENUE REQUIREMENT	\$6,168,652	\$6,250,589	\$81,937	1.3%	1.3%
2019 Estimated Surplus / <Shortfall>	\$16,244				
2020 Estimated Surplus / <Shortfall>		(\$35,693)			
Required Revenue Adjustment		0.6%			0.6%

All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	Hillsborough				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$3,141,757			
Projected Collection Revenue (After Rate Increase)	\$3,141,757				
2019 Base Revenue Surplus / <Shortfall>			(\$190,252)		6.1%
Total Contractor's Compensation					
Base Compensation	\$2,408,234	\$2,564,138	\$155,905	6.5%	5.0%
Agency Specific Contract Changes	(\$431,339)	(\$461,863)	(\$30,524)	7.1%	-1.0%
Incentives / Disincentives	\$1,017	\$315	(\$701)	69.0%	0.0%
Total Contractor's Compensation	\$1,977,912	\$2,102,591	\$124,679	6.3%	4.0%
Other Pass-Through Costs					
Disposal & Processing Fees	\$1,066,507	\$1,079,528	\$13,021	1.2%	0.4%
Agency Franchise & Other Fees	\$287,590	\$287,590	\$0	0.0%	0.0%
Subtotal Other Pass-Through Costs	\$1,354,097	\$1,367,118	\$13,021	1.0%	0.4%
TOTAL REVENUE REQUIREMENT	\$3,332,008	\$3,469,709	\$137,700	4.1%	4.4%
2019 Estimated Surplus / <Shortfall>	(\$190,252)				
2020 Estimated Surplus / <Shortfall>		(\$327,952)			
Required Revenue Adjustment		10.4%			10.4%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	Menlo Park				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$13,002,104			
Projected Collection Revenue (After Rate Increase)	\$12,987,104				
2019 Base Revenue Surplus / <Shortfall>			\$181,832		-1.4%
Total Contractor's Compensation					
Base Compensation	\$5,887,576	\$6,265,139	\$377,562	6.4%	2.9%
Agency Specific Contract Changes	\$25,277	\$25,735	\$458	1.8%	0.0%
Incentives / Disincentives	\$7,112	\$2,612	(\$4,500)	63.3%	0.0%
Total Contractor's Compensation	\$5,919,965	\$6,293,486	\$373,520	6.3%	2.9%
Other Pass-Through Costs					
Disposal & Processing Fees	\$4,695,001	\$4,722,723	\$27,721	0.6%	0.2%
Agency Franchise & Other Fees	\$2,205,305	\$2,207,345	\$2,040	0.1%	0.0%
Subtotal Other Pass-Through Costs	\$6,900,307	\$6,930,068	\$29,761	0.4%	0.2%
TOTAL REVENUE REQUIREMENT	\$12,820,272	\$13,223,554	\$403,281	3.1%	3.1%
2019 Estimated Surplus / <Shortfall>	\$166,832				
2020 Estimated Surplus / <Shortfall>		(\$221,449)			
Required Revenue Adjustment		1.7%			1.7%

All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	North Fair Oaks				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$3,135,374			
Projected Collection Revenue (After Rate Increase)	\$3,071,379				
2019 Base Revenue Surplus / <Shortfall>			\$240,014		-7.7%
Total Contractor's Compensation					
Base Compensation	\$1,683,469	\$1,689,715	\$6,246	0.4%	0.2%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$2,794	\$894	(\$1,900)	68.0%	-0.1%
Total Contractor's Compensation	\$1,686,263	\$1,690,610	\$4,346	0.3%	0.1%
Other Pass-Through Costs					
Disposal & Processing Fees	\$1,064,273	\$1,069,904	\$5,631	0.5%	0.2%
Agency Franchise & Other Fees	\$144,824	\$144,824	\$0	0.0%	0.0%
Subtotal Other Pass-Through Costs	\$1,209,097	\$1,214,728	\$5,631	0.5%	0.2%
TOTAL REVENUE REQUIREMENT	\$2,895,360	\$2,905,338	\$9,978	0.3%	0.3%
2019 Estimated Surplus / <Shortfall>	\$176,019				
2020 Estimated Surplus / <Shortfall>		\$230,037			
Required Revenue Adjustment		-7.3%			-7.3%

All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	Redwood City				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$20,407,500			
Projected Collection Revenue (After Rate Increase)	\$20,295,500				
2019 Base Revenue Surplus / <Shortfall>			\$231,792		-1.1%
Total Contractor's Compensation					
Base Compensation	\$10,428,306	\$10,518,075	\$89,769	0.9%	0.4%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$17,218	\$5,772	(\$11,446)	66.5%	-0.1%
Total Contractor's Compensation	\$10,445,524	\$10,523,847	\$78,323	0.7%	0.4%
Other Pass-Through Costs					
Disposal & Processing Fees	\$6,907,476	\$6,942,759	\$35,283	0.5%	0.2%
Agency Franchise & Other Fees	\$2,822,708	\$2,837,996	\$15,288	0.5%	0.1%
Subtotal Other Pass-Through Costs	\$9,730,185	\$9,780,756	\$50,571	0.5%	0.2%
TOTAL REVENUE REQUIREMENT	\$20,175,709	\$20,304,603	\$128,894	0.6%	0.6%
2019 Estimated Surplus / <Shortfall>	\$119,792				
2020 Estimated Surplus / <Shortfall>		\$102,897			
Required Revenue Adjustment		-0.5%			-0.5%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	San Carlos				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$9,097,975			
Projected Collection Revenue (After Rate Increase)	\$9,097,975				
2019 Base Revenue Surplus / <Shortfall>			\$64,747		-0.7%
Total Contractor's Compensation					
Base Compensation	\$5,163,034	\$5,222,400	\$59,367	1.1%	0.7%
Agency Specific Contract Changes	(\$5,003)	(\$4,698)	\$305	-6.1%	0.0%
Incentives / Disincentives	\$5,280	\$1,758	(\$3,521)	66.7%	0.0%
Total Contractor's Compensation	\$5,163,310	\$5,219,461	\$56,150	1.1%	0.6%
Other Pass-Through Costs					
Disposal & Processing Fees	\$2,658,804	\$2,675,627	\$16,823	0.6%	0.2%
Agency Franchise & Other Fees	\$1,211,112	\$1,224,454	\$13,341	1.1%	0.1%
Subtotal Other Pass-Through Costs	\$3,869,917	\$3,900,080	\$30,164	0.8%	0.3%
TOTAL REVENUE REQUIREMENT	\$9,033,227	\$9,119,541	\$86,314	1.0%	0.9%
2019 Estimated Surplus / <Shortfall>	\$64,747				
2020 Estimated Surplus / <Shortfall>		(\$21,567)			
Required Revenue Adjustment		0.2%			0.2%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	San Mateo				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$25,436,606			
Projected Collection Revenue (After Rate Increase)	\$25,411,606				
2019 Base Revenue Surplus / <Shortfall>			\$1,573,027		-6.2%
Total Contractor's Compensation					
Base Compensation	\$12,714,099	\$13,206,354	\$492,255	3.9%	1.9%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$17,947	\$5,840	(\$12,107)	67.5%	0.0%
Total Contractor's Compensation	\$12,732,046	\$13,212,194	\$480,148	3.8%	1.9%
Other Pass-Through Costs					
Disposal & Processing Fees	\$7,491,047	\$7,528,421	\$37,374	0.5%	0.1%
Agency Franchise & Other Fees	\$3,640,486	\$3,681,231	\$40,745	1.1%	0.2%
Subtotal Other Pass-Through Costs	\$11,131,533	\$11,209,652	\$78,119	0.7%	0.3%
TOTAL REVENUE REQUIREMENT	\$23,863,579	\$24,421,847	\$558,267	2.3%	2.2%
2019 Estimated Surplus / <Shortfall>	\$1,548,027				
2020 Estimated Surplus / <Shortfall>		\$1,014,759			
Required Revenue Adjustment		-4.0%			-4.0%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	West Bay				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$1,726,390			
Projected Collection Revenue (After Rate Increase)	\$1,726,390				
2019 Base Revenue Surplus / <Shortfall>			\$70,285		-4.1%
Total Contractor's Compensation					
Base Compensation	\$1,019,218	\$1,028,165	\$8,947	0.9%	0.5%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$1,762	\$597	(\$1,165)	66.1%	-0.1%
Total Contractor's Compensation	\$1,020,981	\$1,028,762	\$7,782	0.8%	0.5%
Other Pass-Through Costs					
Disposal & Processing Fees	\$536,299	\$542,709	\$6,410	1.2%	0.4%
Agency Franchise & Other Fees	\$98,824	\$98,824	\$0	0.0%	0.0%
Subtotal Other Pass-Through Costs	\$635,124	\$641,534	\$6,410	1.0%	0.4%
TOTAL REVENUE REQUIREMENT	\$1,656,105	\$1,670,296	\$14,192	0.9%	0.8%
2019 Estimated Surplus / <Shortfall>	\$70,285				
2020 Estimated Surplus / <Shortfall>		\$56,094			
Required Revenue Adjustment			-3.2%		-3.2%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					

COLLECTION RATE VARIANCE ANALYSIS estimated 8/9/2019	Unincorporated County				
	2020 Variance				
	2019 Estimated	2020 Estimated	2020 vs. 2019 Change	2020 vs. 2019 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$3,497,723			
Projected Collection Revenue (After Rate Increase)	\$3,483,723				
2019 Base Revenue Surplus / <Shortfall>			\$85,807		-2.5%
Total Contractor's Compensation					
Base Compensation	\$2,181,115	\$2,310,768	\$129,654	5.9%	3.7%
Agency Specific Contract Changes	\$0	\$0	\$0	0.0%	0.0%
Incentives / Disincentives	\$522	\$141	(\$381)	72.9%	0.0%
Total Contractor's Compensation	\$2,181,637	\$2,310,910	\$129,273	5.9%	3.7%
Other Pass-Through Costs					
Disposal & Processing Fees	\$1,063,293	\$1,074,393	\$11,100	1.0%	0.3%
Agency Franchise & Other Fees	\$166,987	\$167,654	\$667	0.4%	0.0%
Subtotal Other Pass-Through Costs	\$1,230,280	\$1,242,047	\$11,767	1.0%	0.3%
TOTAL REVENUE REQUIREMENT	\$3,411,917	\$3,552,957	\$141,040	4.1%	4.0%
2019 Estimated Surplus / <Shortfall>	\$71,807				
2020 Estimated Surplus / <Shortfall>		(\$55,233)			
Required Revenue Adjustment		1.6%			1.6%
All numbers above are current estimates except 2019 Contractor's (Recology) Compensation which is final and 2020 Contractor's Compensation which is subject to Board Approval.					