



# SBWMA FINAL REPORT REVIEWING THE 2019 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

September 13, 2018

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- APPENDIX B** – SBWMA Questions and Comments on Recology 2019 Compensation Application Issued June 29, 2018 (with Recology’s Responses Submitted on July 20, 2018)
- APPENDIX C** – Member Agency Questions and Comments on Recology 2019 Compensation Application (with Recology’s Responses)
- APPENDIX D** – Member Agency Variance Analysis of Total Collection Cost and Rate Impact

## **SECTION 1 EXECUTIVE SUMMARY**

### **1.A Summary**

The South Bayside Waste Management Authority (SBWMA/RethinkWaste) is required to review the Recology San Mateo County (Recology) 2019 Compensation Application (Application) for completeness, accuracy and consistency as prescribed in the Franchise Agreements between the SBWMA Member Agencies and Recology. The Application is to document the results of Recology following the prescribed compensation adjustment process detailed in Article 11, and Attachments K and N of the Member Agency Franchise Agreements. Specifically, this process includes applying the various indices to the approved 2018 compensation to arrive at the 2019 compensation, allocating the 2019 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 2019 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 2018 to 2019 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 2019, 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 2019 Recology Compensation Application was submitted to the SBWMA and Member Agencies on June 15, 2018. On June 29, 2018 the SBWMA submitted questions and comments to Recology. No questions were submitted by Member Agencies (**Appendix C**). On July 20, 2018 Recology submitted a revised 2019 Compensation Application and responses to the SBWMA and Member Agency's questions and comments. **Appendix A** provides Part 1 of Recology's revised July 20 (redlined) version of its 2019 Compensation Application.

**Appendix B** provides the SBWMA's questions and comments to Parts 1 and 2 of Recology's Compensation Application, and Recology's response submitted on July 20. The SBWMA provided all Member Agencies their detailed revenue, disposal and processing cost projections for 2019 on July 13th.

**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 2019 solid waste rates, if necessary.

**Table 1**  
**2018 Schedule to Approve Recology 2019 Compensation**

<b>Due Date (all 2018)</b>	<b>Milestone</b>
<b>June 15</b>	Recology 2019 Compensation Application Submitted to Member Agencies and SBWMA
<b>June 29</b>	Member Agencies and SBWMA Comments Due to Recology
<b>July 20</b>	Revised Recology 2019 Compensation Application Submitted to Member Agencies and SBWMA
<b>August 10</b>	SBWMA Draft Report Reviewing the 2019 Recology Compensation Application Issued to Member Agencies
<b>August 24</b>	Member Agencies Written Comments on SBWMA Draft Report Due to SBWMA
<b>September 13</b>	SBWMA TAC Meeting: Staff Update and Discussion
<b>September 13</b>	SBWMA Final Report Issued to Member Agencies/Board
<b>September 27</b>	SBWMA Board Meeting: Consideration of Final Report

**1.C Summary of Notable Items in the 2019 Recology Compensation Application**

Notable items included in the 2019 Recology Compensation Application include:

- 2017 revenue reconciliation of surplus/shortfall and interest payments due to/from Recology (Table H in Recology Application, Appendix A).
- After a question from SBWMA, Recology reduced their cost by \$447,000 including profit (\$404,456 excluding profit) to Remove Zero Waste Specialist expense (two FTEs and associated costs), as proposed by Recology and agreed upon in the revised Franchise Agreement (Table E in Recology Application, Appendix A).
- Performance Incentive/Disincentive payment to Recology of \$78,590 (Table F in Recology Application, Appendix A).
- Overall 1.9% Total Compensation increase even including a fuel index increase of 31.5% (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. 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 2018. The statistics compiled from this Route Assessment are used to allocate costs for 2019. 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 2019 Recology Compensation Application, SBWMA is recommending that the Board approve an adjustment to Recology's 2019 compensation as delineated in **Table 2** below. **Table 2** summarizes the adjusted 2019 costs and changes from 2018. The total change in Recology's compensation for 2019 is an increase of \$1,062,323 or 1.9% from 2018.

**Table 2**  
**Summary of Adjusted 2018 Costs to 2019 Costs**

RECOLOGY COMPENSATION SUMMARY	2018 Cost	2019 Cost	\$ Change	% Change
<b>Total Annual Cost of Operations</b>	\$ 50,874,570	\$ 52,197,453	\$ 1,322,883	2.6%
<b>Profit</b>	5,340,424	5,479,291	138,866	2.6%
<b>Operating Ratio</b>	90.5%	90.5%		
<b>Total Operating Costs</b>	\$ 56,214,995	\$ 57,676,744	\$ 1,461,749	2.6%
<b>Contractor Pass-Through Costs</b>				
Interest Expense	\$ 965,560	\$ 605,160	\$ (360,400)	-37.3%
Interest Expense on Implementation Cost	31,707	19,746	(11,961)	-37.7%
Contract Changes to Specific Agencies <sup>1</sup>	(419,208)	(411,065)	8,144	-1.9%
<b>Total Contractor Pass-Through Costs</b>	\$ 578,059	\$ 213,841	\$ (364,218)	-63.0%
<b>BASE CONTRACTOR'S COMPENSATION</b>	<b>\$ 56,793,053</b>	<b>\$ 57,890,585</b>	<b>\$ 1,097,532</b>	<b>1.9%</b>
<b>Other Adjustments</b>				
Performance Incentives / Disincentives	\$ 113,799	\$ 78,590	\$ (35,208)	30.9%
<b>Total Other Adjustments</b>	\$ 113,799	\$ 78,590	\$ (35,208)	30.9%
<b>TOTAL CONTRACTOR'S COMPENSATION</b>	<b>\$ 56,906,852</b>	<b>\$ 57,969,175</b>	<b>\$ 1,062,323</b>	<b>1.9%</b>
<sup>1</sup> Includes Agency specific contract changes (Hillsborough, Menlo Park, San Carlos).				

## **SECTION 2 BACKGROUND**

### **2.A Franchise Agreement: Terms and Contractor Compensation Methodology**

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

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

#### *Cost Adjustment Process*

Attachment K, Table 1 of the Franchise Agreements prescribes a detailed process to adjust Recology's costs during the full ten-year term of the Franchise Agreements. A flowchart in Recology's Compensation Application (see table D 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.

### **2.B Annual Revenue Reconciliation: Rationale and Process**

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 **\$104** 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 2019).

The Recology 2017 Revenue Reconciliation Report was submitted to the SBWMA and Member Agencies on March 31, 2018. Staff reviewed this 2017 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 28, 2018 the Board reviewed agenda item 4B which included the audit findings and results (i.e., final 2017 surplus/shortfall and interest) of the revenue reconciliation that will be added to or subtracted from Recology's 2019 compensation. Agencies can also request a refunds of surplus balances or make payments to recology for shortfalls The final 2017 Revenue Reconciliation balances, net of payments, have been included in Recology's 2019 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: SBWMA's Diligence Responsibilities**

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 20 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**. The major changes to Recology's compensation are as follows:

1. A cost reduction of \$447,000 for Waste Zero Specialists.
2. A reduction in the Diversion Incentive payment of \$43,394.

### **SECTION 3 2019 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION**

#### **3.A Description of Compensation Adjustments**

The 2019 Recology Compensation Application is based on adjusting 2018 cost categories by applying the changes in several indices to arrive at the 2019 compensation by cost category. In the Compensation Application, the term "cost" really refers to "compensation." Please note this does not mean Recology's "true" cost as this is an index based compensation approach and not a "cost plus" approach. The SBWMA moved from a "cost plus" compensation model to a new "fixed price plus index adjustment" compensation methodology with the new Recology contract that started on January 1, 2011 and this change has resulted in substantial savings to the Member Agencies.

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

**Recology Annual Revenue Reconciliation Report for 2017.** Recology submitted a Revenue Reconciliation Report to the SBWMA on March 31, 2018 which compares the approved compensation owed to Recology for 2017 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 current systemwide 2017 shortfall balance, including interest, is \$1,105,467 due to Recology, see **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) (Table F, Appendix A)

Recology's 2017 diversion incentive payment is \$155,755. The diversion incentive payment is offset by Performance penalties. The net amount owed to Recology and added to Recology's 2019 compensation is \$78,590 (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 (\$25,277) 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),<sup>1</sup> and San Carlos has a cost reduction for residential food scraps kitchen pails bought by the City prior to the start of the new contract with Recology (\$5,003).

The Town of Hillsborough also negotiated a reduction in the cost of backyard service which is adjusted each year. The 2019 cost reduction is \$426,007.

### **3.B Adjustment of 2018 Compensation to 2019**

As prescribed in Article 11, Attachment K and Attachment N of the Franchise Agreements, the adjustment of the 2018 compensation to 2019 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 2018 to 2019. The application of all adjustment factors to the costs approved in Recology's 2018 Compensation Application results in an overall increase in Recology's base 2019 compensation totaling \$1,097,532 or 1.9% from 2018. Performance Incentive (and Liquidated Damages) payments decreased by \$35,208. The result is a net increase in total contractor's compensation of \$1,062,323 or 1.9 % for 2019 from 2018. Please refer to **Table 3** on the next page.

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<sup>1</sup> The 2019 Application includes depreciation for replacement organic carts from 2011 through 2013. This depreciation totals \$20,626, which reduces the Town's savings (originally calculated at \$25,958) for purchasing used carts. This new depreciation expense commencing in 2015 was approved by the Town contingent on Recology's compliance with conditions put forth by the Town related to reporting and ownership of the containers upon expiration of the Franchise Agreement.



**Table 3**  
**Results of Adjustments of 2018 Costs to 2019 Costs**

RECOLOGY COMPENSATION DETAIL	2018 Cost	2019 Cost	% of Total Cost	\$ Change	% Change
<b>Annual Cost of Operations</b>					
Direct Labor-Related Costs					
Wages	\$ 17,141,395	\$ 17,587,978	30.3%	\$ 446,583	2.6%
Benefits	6,822,320	7,000,062	12.1%	177,741	2.6%
Payroll Taxes	1,426,164	1,463,320	2.5%	37,156	2.6%
Workers Compensation Insurance	1,497,957	1,532,964	2.6%	35,007	2.3%
<b>Total Direct Labor Related-Costs</b>	<b>\$ 26,887,836</b>	<b>\$ 27,584,323</b>	<b>47.6%</b>	<b>\$ 696,487</b>	<b>2.6%</b>
Direct Fuel Costs	2,061,564	2,709,935	4.7%	648,371	31.5%
Other Direct Costs	2,208,005	2,244,658	3.9%	36,653	1.7%
Depreciation					
- Collection Vehicles	4,016,792	4,016,792	6.9%	-	0.0%
- Containers	1,882,550	1,882,550	3.2%	-	0.0%
<b>Total Depreciation</b>	<b>\$ 5,899,342</b>	<b>\$ 5,899,343</b>	<b>10.2%</b>	<b>\$ (0)</b>	<b>0.0%</b>
Allocated Indirect Costs excluding Depreciation					
General and Administrative	\$ 7,406,610	\$ 7,571,631	13.1%	\$ 165,021	2.2%
Adjustment for Waste Zero Specialists	-	(404,456)	-0.7%	(404,456)	
Operations	1,826,241	1,882,346	3.2%	56,106	3.1%
Vehicle Maintenance	3,175,828	3,263,965	5.6%	88,137	2.8%
Container Maintenance	1,069,518	1,106,083	1.9%	36,565	3.4%
<b>Total Allocated Indirect Costs excluding Depreciation</b>	<b>\$ 13,478,197</b>	<b>\$ 13,419,569</b>	<b>23.1%</b>	<b>\$ (58,628)</b>	<b>-0.4%</b>
Total Allocated Indirect Depreciation Costs	152,451	152,451	0.3%	-	0.0%
Annual Implementation Cost Amortization	187,175	187,175	0.3%	-	0.0%
<b>Total Annual Cost of Operations</b>	<b>\$ 50,874,570</b>	<b>\$ 52,197,454</b>	<b>90.0%</b>	<b>\$ 1,322,884</b>	<b>2.6%</b>
<b>Profit</b>	5,340,424	5,479,291	9.5%	138,866	2.6%
<b>Operating Ratio</b>	90.5%	90.5%			
<b>Total Operating Costs</b>	<b>\$ 56,214,995</b>	<b>\$ 57,676,744</b>	<b>99.5%</b>	<b>\$ 1,461,749</b>	<b>2.6%</b>
<b>Contractor Pass-Through Costs</b>					
Interest Expense	\$ 965,560	\$ 605,160	1.0%	\$ (360,400)	-37.3%
Interest Expense on Implementation Cost	31,707	19,746	0.0%	(11,961)	-37.7%
Contract Changes to Specific Agencies	(419,208)	(411,065)	-0.7%	8,144	-1.9%
<b>Total Contractor Pass-Through Costs</b>	<b>578,059</b>	<b>213,841</b>	<b>0.4%</b>	<b>(364,218)</b>	<b>-63.0%</b>
<b>BASE CONTRACTOR'S COMPENSATION</b>	<b>\$ 56,793,053</b>	<b>\$ 57,890,585</b>	<b>99.9%</b>	<b>\$ 1,097,532</b>	<b>1.9%</b>
<b>Other Adjustments</b>					
Performance Incentives / Disincentives	113,799	78,590	0.1%	(35,208)	30.9%
<b>Total Other Adjustments</b>	<b>113,799</b>	<b>78,590</b>	<b>0.1%</b>	<b>(35,208)</b>	<b>30.9%</b>
<b>TOTAL CONTRACTOR'S COMPENSATION</b>	<b>\$ 56,906,852</b>	<b>\$ 57,969,175</b>	<b>100.0%</b>	<b>\$ 1,062,323</b>	<b>1.9%</b>

**Table 4** below denotes the total cost adjustment to each cost category and the specific index prescribed in the Franchise Agreement(s). It should be pointed out that the highly variable Fuel Index did go up by 31.45% but was largely offset by other factors. This index was a negative 0.26 in 2018 and negative 38.3% in 2017.

**Table 4  
Results of Cost Adjustments**

<b>Cost Category</b>	<b>Cost Adjustment</b>	<b>Index</b>	<b>Explanation</b>
<b>CBA Wages and Benefits (Drivers, Mechanics, Clerical)</b>	2.61%	Index #1	The CBA wage & benefits adjustment is based on the change in a CPI Index.
<b>Payroll Tax</b>	2.61%	n/a	The payroll tax rate is adjusted by changes in Federal or state payroll tax rates. There are no tax rate changes; therefore, the payroll tax expense changes in accordance with change in wages.
<b>Worker's Compensation Insurance</b>	2.34%	Index #2	The Worker's Comp Insurance adjustment is based on the change in a CPI Index.
<b>Depreciation – Collection Vehicles</b>	0.0%	n/a	No adjustment in 2019.
<b>Depreciation - Containers</b>	0.0%	n/a	No adjustment in 2019.
<b>Non-CBA Labor</b>	2.61%	Index #1	The Non-CBA Labor cost (management and supervisors) adjustment is based on the change in a CPI index.
<b>Fuel</b>	31.45%	Index #3	The Fuel expense is adjusted by the change in a fuel index.
<b>Other Indirect Cost</b>	1.66%	Index #4	The Other Operating cost (insurance, general office expense, safety, etc.) is adjusted by 80% of a change in a CPI index.
<b>Application of Index to the Cost Categories</b>	<b>Cost Adjustment</b>	<b>Reference</b>	<b>Specific Index Prescribed in the Franchise Agreement(s)</b>
CBA & non-CBA Wages & Benefits	2.61%	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	2.34%	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	31.45%	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	1.66%	Index #4	U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, U.S. city average (not seasonally adjusted, all items, base period: 1982-84=100, series no. cuur0000sao).

### 3.C Recommended Adjustment to Recology’s Compensation for 2019

Based on the net results of the compensation adjustments previously described and the analysis of the 2019 Recology Compensation Application, SBWMA is recommending that the SBWMA Board approve an adjustment to Recology's 2019 compensation as delineated in **Table 5 – Comparison of 2018 and 2019 Compensation**. The total adjustment to Recology's contractor’s compensation is a 1.9% increase.

**Table 5  
Comparison of 2018 and 2019 Compensation**

<b>RECOLOGY COMPENSATION SUMMARY</b>	<b>2018 Cost</b>	<b>2019 Cost</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Total Annual Cost of Operations</b>	\$ 50,874,570	\$ 52,197,453	\$ 1,322,883	2.6%
<b>Profit</b>	5,340,424	5,479,291	138,866	2.6%
<b>Operating Ratio</b>	90.5%	90.5%		
<b>Total Operating Costs</b>	\$ 56,214,995	\$ 57,676,744	\$ 1,461,749	2.6%
<b>Contractor Pass-Through Costs</b>				
Interest Expense	\$ 965,560	\$ 605,160	\$ (360,400)	-37.3%
Interest Expense on Implementation Cost	31,707	19,746	(11,961)	-37.7%
Contract Changes to Specific Agencies <sup>1</sup>	(419,208)	(411,065)	8,144	-1.9%
<b>Total Contractor Pass-Through Costs</b>	\$ 578,059	\$ 213,841	\$ (364,218)	-63.0%
<b>BASE CONTRACTOR'S COMPENSATION</b>	<b>\$ 56,793,053</b>	<b>\$ 57,890,585</b>	<b>\$ 1,097,532</b>	<b>1.9%</b>
<b>Other Adjustments</b>				
Performance Incentives / Disincentives	\$ 113,799	\$ 78,590	\$ (35,208)	30.9%
<b>Total Other Adjustments</b>	\$ 113,799	\$ 78,590	\$ (35,208)	30.9%
<b>TOTAL CONTRACTOR'S COMPENSATION</b>	<b>\$ 56,906,852</b>	<b>\$ 57,969,175</b>	<b>\$ 1,062,323</b>	<b>1.9%</b>
<sup>1</sup> Includes Agency specific contract changes (Hillsborough, Menlo Park, San Carlos).				

### 3.D Recology Cost Allocation Process by Member Agency

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

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

The statistics used to allocate costs for 2019 are based on comprehensive operational metrics compiled for each Member Agency by Recology in April/May 2018.

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 3-3, 3-4 and 3-5.

**Table 6 – Member Agency Cost Allocation**

BASE COLLECTION COSTS	2019 Total	2019 Costs													
		Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County	
<b>Annual Cost of Operations</b>															
Direct Labor-Related Costs															
Wages for CBAs	\$17,587,978	\$440,138	\$1,091,679	\$1,849,437	\$709,078	\$1,063,565	\$768,871	\$1,714,574	\$507,224	\$3,114,324	\$1,529,805	\$3,860,621	\$302,938	\$635,723	
Benefits for CBAs	\$7,000,062	\$177,451	\$437,034	\$719,318	\$284,902	\$419,627	\$311,687	\$678,879	\$204,249	\$1,244,796	\$611,032	\$1,530,222	\$122,580	\$258,286	
Payroll Taxes	\$1,463,320	\$36,620	\$90,828	\$153,873	\$58,995	\$88,489	\$63,970	\$142,653	\$42,201	\$259,112	\$127,280	\$321,204	\$25,204	\$52,892	
Workers Compensation Insurance	\$1,532,964	\$38,362	\$95,151	\$161,196	\$61,803	\$92,700	\$67,015	\$149,442	\$44,210	\$271,444	\$133,338	\$336,491	\$26,404	\$55,410	
<b>Total Direct Labor Related-Costs</b>	<b>\$27,584,323</b>	<b>\$692,571</b>	<b>\$1,714,691</b>	<b>\$2,883,824</b>	<b>\$1,114,778</b>	<b>\$1,664,381</b>	<b>\$1,211,543</b>	<b>\$2,685,547</b>	<b>\$797,894</b>	<b>\$4,889,675</b>	<b>\$2,401,454</b>	<b>\$6,048,537</b>	<b>\$477,127</b>	<b>\$1,002,312</b>	
Direct Fuel Costs	\$2,709,935	\$69,988	\$165,906	\$244,962	\$114,152	\$168,232	\$127,381	\$284,026	\$80,723	\$488,944	\$241,495	\$569,724	\$49,939	\$104,464	
Other Direct Costs	\$2,244,658	\$56,019	\$137,437	\$210,112	\$93,750	\$138,583	\$101,120	\$237,701	\$66,243	\$405,138	\$199,310	\$475,119	\$40,072	\$84,055	
Depreciation															
- Collection Vehicles	\$4,016,792	\$107,221	\$245,020	\$355,514	\$168,892	\$250,111	\$189,559	\$435,967	\$117,524	\$723,652	\$359,869	\$835,379	\$74,061	\$154,023	
- Containers	\$1,882,550	\$58,509	\$121,815	\$162,280	\$81,570	\$113,416	\$60,565	\$181,119	\$57,783	\$340,901	\$167,971	\$418,072	\$36,345	\$82,203	
<b>Total Depreciation</b>	<b>\$5,899,342</b>	<b>165,731</b>	<b>366,835</b>	<b>517,794</b>	<b>250,462</b>	<b>363,528</b>	<b>250,124</b>	<b>617,086</b>	<b>175,308</b>	<b>1,064,553</b>	<b>527,840</b>	<b>1,253,451</b>	<b>110,405</b>	<b>236,226</b>	
Allocated Indirect Costs															
General and Administrative	\$7,571,631	\$116,468	\$470,039	\$695,442	\$368,060	\$473,322	\$178,517	\$774,846	\$222,425	\$1,408,819	\$717,168	\$1,741,189	\$118,294	\$287,041	
Adjustment for Zero Waste Specialists	(\$404,458)	(\$430)	(\$17,524)	(\$53,706)	(\$14,043)	(\$19,206)	(\$235)	(\$44,162)	(\$18,228)	(\$77,449)	(\$45,061)	(\$105,182)	(\$1,252)	(\$7,980)	
Operations	\$1,882,346	\$50,448	\$112,355	\$185,092	\$75,593	\$123,184	\$89,307	\$203,999	\$51,619	\$326,704	\$164,912	\$394,266	\$34,326	\$70,542	
Vehicle Maintenance	\$3,263,965	\$87,476	\$194,823	\$320,947	\$131,078	\$213,599	\$154,857	\$353,732	\$89,506	\$566,501	\$285,956	\$683,652	\$59,521	\$122,320	
Container Maintenance	\$1,106,083	\$26,152	\$68,340	\$101,212	\$50,568	\$68,602	\$28,119	\$119,169	\$31,537	\$201,754	\$99,251	\$253,408	\$17,635	\$40,336	
<b>Total Allocated Indirect Costs</b>	<b>\$13,419,569</b>	<b>\$280,113</b>	<b>\$828,034</b>	<b>\$1,248,987</b>	<b>\$611,256</b>	<b>\$859,501</b>	<b>\$450,565</b>	<b>\$1,407,585</b>	<b>\$376,858</b>	<b>\$2,426,328</b>	<b>\$1,222,225</b>	<b>\$2,967,332</b>	<b>\$228,524</b>	<b>\$512,260</b>	
Total Allocated Indirect Depreciation Costs	\$152,451	\$4,089	\$9,051	\$15,230	\$6,243	\$9,869	\$7,209	\$16,530	\$4,151	\$26,475	\$13,274	\$31,864	\$2,765	\$5,701	
Annual Implementation Cost Amortization	\$187,175	\$5,330	\$11,170	\$17,182	\$8,269	\$10,863	\$9,711	\$19,391	\$5,539	\$33,716	\$16,212	\$38,291	\$3,709	\$7,792	
<b>Total Annual Cost of Operations <sup>1</sup></b>	<b>\$52,197,453</b>	<b>1,273,840</b>	<b>3,233,124</b>	<b>5,138,091</b>	<b>2,198,909</b>	<b>3,214,957</b>	<b>2,157,654</b>	<b>5,267,865</b>	<b>1,506,705</b>	<b>9,334,830</b>	<b>4,621,810</b>	<b>11,384,318</b>	<b>912,540</b>	<b>1,952,810</b>	
<b>Profit</b>	<b>\$5,479,291</b>	<b>\$133,718</b>	<b>\$339,389</b>	<b>\$539,358</b>	<b>\$230,825</b>	<b>\$337,482</b>	<b>\$226,494</b>	<b>\$552,980</b>	<b>\$158,162</b>	<b>\$979,899</b>	<b>\$485,162</b>	<b>\$1,195,039</b>	<b>\$95,791</b>	<b>\$204,991</b>	
<b>Operating Ratio</b>	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%	
<b>Total Operating Cost</b>	<b>\$57,676,744</b>	<b>\$1,407,558</b>	<b>\$3,572,513</b>	<b>\$5,677,448</b>	<b>\$2,429,733</b>	<b>\$3,552,439</b>	<b>\$2,384,149</b>	<b>\$5,820,845</b>	<b>\$1,664,868</b>	<b>\$10,314,729</b>	<b>\$5,106,972</b>	<b>\$12,579,357</b>	<b>\$1,008,331</b>	<b>\$2,157,802</b>	
<b>Contractor Pass-Through Costs</b>															
Interest Expense	\$605,160	\$15,541	\$37,309	\$55,611	\$25,402	\$37,406	\$23,188	\$64,666	\$18,016	\$109,966	\$54,358	\$130,600	\$10,531	\$22,565	
Interest Expense on Implementation Cost	\$19,746	\$500	\$1,160	\$1,965	\$866	\$1,146	\$897	\$2,066	\$586	\$3,611	\$1,704	\$4,141	\$356	\$748	
Contract Changes to Specific Agencies	(\$411,065)	\$0	\$0	\$0	\$0	\$0	(\$431,339)	\$25,277	\$0	\$0	(\$5,003)	\$0	\$0	\$0	
<b>BASE COMPENSATION</b>	<b>\$57,890,585</b>	<b>\$1,423,599</b>	<b>\$3,610,982</b>	<b>\$5,735,025</b>	<b>\$2,456,002</b>	<b>\$3,590,991</b>	<b>\$1,976,895</b>	<b>\$5,912,853</b>	<b>\$1,683,469</b>	<b>\$10,428,306</b>	<b>\$5,158,031</b>	<b>\$12,714,099</b>	<b>\$1,019,218</b>	<b>\$2,181,115</b>	
Incentives and Disincentives	\$78,590	\$901	\$3,275	\$10,978	\$5,286	\$4,497	\$1,017	\$7,112	\$2,794	\$17,218	\$5,280	\$17,947	\$1,762	\$522	
<b>Total Contractor Adjustments</b>	<b>\$78,590</b>	<b>\$901</b>	<b>\$3,275</b>	<b>\$10,978</b>	<b>\$5,286</b>	<b>\$4,497</b>	<b>\$1,017</b>	<b>\$7,112</b>	<b>\$2,794</b>	<b>\$17,218</b>	<b>\$5,280</b>	<b>\$17,947</b>	<b>\$1,762</b>	<b>\$522</b>	
<b>TOTAL CONTRACTOR'S COMPENSATION 2019</b>	<b>\$57,969,175</b>	<b>\$1,424,499</b>	<b>\$3,614,257</b>	<b>\$5,746,003</b>	<b>\$2,461,288</b>	<b>\$3,595,489</b>	<b>\$1,977,912</b>	<b>\$5,919,965</b>	<b>\$1,686,263</b>	<b>\$10,445,524</b>	<b>\$5,163,310</b>	<b>\$12,732,046</b>	<b>\$1,020,981</b>	<b>\$2,181,637</b>	
<b>TOTAL CONTRACTOR'S COMPENSATION 2018</b>	<b>\$56,906,852</b>	<b>\$1,356,594</b>	<b>\$3,607,764</b>	<b>\$5,727,633</b>	<b>\$2,327,694</b>	<b>\$3,443,040</b>	<b>\$1,945,283</b>	<b>\$5,720,090</b>	<b>\$1,698,894</b>	<b>\$10,197,274</b>	<b>\$5,171,300</b>	<b>\$12,556,375</b>	<b>\$975,092</b>	<b>\$2,179,819</b>	
<b>Change in Contractor's Compensation</b>	<b>\$1,062,323</b>	<b>\$67,905</b>	<b>\$6,493</b>	<b>\$18,370</b>	<b>\$133,594</b>	<b>\$152,449</b>	<b>\$32,629</b>	<b>\$199,875</b>	<b>(\$12,631)</b>	<b>\$248,250</b>	<b>(\$7,990)</b>	<b>\$175,671</b>	<b>\$45,889</b>	<b>\$1,818</b>	
<b>Percentage Change in Compensation</b>	1.9%	5.0%	0.2%	0.3%	5.7%	4.4%	1.7%	3.5%	-0.7%	2.4%	-0.2%	1.4%	4.7%	0.1%	

<sup>1</sup> Costs do not reflect any Agency directed changes in service.

## **SECTION 4 2019 MEMBER AGENCY REVENUE REQUIREMENT OBLIGATIONS**

### **4.A Components of Member Agency Revenue Requirement**

The compensation to Recology for 2019 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 2019 tip fees at the Shoreway Environmental Center. Tonnage assumptions were provided to Member Agencies on July 20 for review.
2. Franchise fee – Franchise and other Member Agency fees and programs. Fee assumptions used for 2019 were provided by Member Agencies on July 20.
3. Agency specific changes – Agency specific changes made in 2011 to the Franchise Agreements are noted and applied to each Member Agency. These changes were: Recology billing service for Menlo Park, credit for Hillsborough purchase of organics carts and reduced cost for back yard service, and a credit for San Carlos for City-purchased kitchen pails.

### **4.C Cost Variance from 2018 to 2019**

The variance in Total Revenue Requirement from 2018 to 2019 is shown in **Table 7** by cost category and the rate impact of each change. The 2019 total collection cost which includes the Recology compensation and other pass-through costs shows an average SBWMA rate increase of 5.4%. This major causes of this rate increase are:

1. The Total Contractor’s compensation due to Recology increased \$1,062,323 from 2018 with an rate impact of a 1.0% increase.
2. Disposal and Processing Fees at Shoreway increased 12.8% with a rate impact of 4.0%. This was primarily caused by a 12.8% effective tip fee increase due to collapsing global commodity prices caused primarily from the market disruption in China.

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 estimated 9/13/2018	SBWMA TOTAL				
	2019 Variance				
	2018 Estimated	2019 Estimated	2019 vs. 2018 Change	2019 vs. 2018 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$104,396,040			
Projected Collection Revenue (After Rate Increase)	\$104,371,040				
2018 Base Revenue Surplus / <Shortfall>			(\$203,900)		0.2%
<b>Total Contractor's Compensation</b>					
Base Compensation	\$57,212,261	\$58,301,649	\$1,089,388	1.9%	1.0%
Agency Specific Contract Changes	(\$419,208)	(\$411,065)	\$8,144	-1.9%	0.0%
Incentives / Disincentives	\$113,799	\$78,590	(\$35,208)	30.9%	0.0%
<b>Total Contractor's Compensation</b>	<b>\$56,906,852</b>	<b>\$57,969,175</b>	<b>\$1,062,323</b>	<b>1.9%</b>	<b>1.0%</b>
<b>Other Pass-Through Costs</b>					
Disposal & Processing Fees	\$32,875,602	\$37,083,146	\$4,207,543	12.8%	4.0%
Agency Franchise & Other Fees	\$14,817,486	\$14,993,796	\$176,310	1.2%	0.2%
<b>Subtotal Other Pass-Through Costs</b>	<b>\$47,693,088</b>	<b>\$52,076,941</b>	<b>\$4,383,853</b>	<b>9.2%</b>	<b>4.2%</b>
<b>TOTAL REVENUE REQUIREMENT</b>	<b>\$104,599,940</b>	<b>\$110,046,116</b>	<b>\$5,446,177</b>	<b>5.2%</b>	<b>5.2%</b>
2018 Estimated Surplus / <Shortfall>	(\$228,900)				
2019 Estimated Surplus / <Shortfall>		(\$5,650,075)			
<b>Required Revenue Adjustment</b>		5.4%			5.4%

All numbers above are current estimates except 2018 Contractor's (Recology) Compensation which is final and 2019 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 2019 and are summarized in **Table 8**. The amounts shown in Table 8 reflect estimated balances at December 31, 2019 before any 2019 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 2019. The Total Rate Adjustment Percentage (line **F.3**) is derived from comparing the 2019 base revenue at 2018 rates on line **A.1** to the total revenue impact (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 2019 Collection Revenue using 2018 rates (**A.1**), the 2019 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2019 Revenue Requirement (**A.7**), the estimated 2019 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 5.9% increase; however, each Member Agency has a different adjustment percentage.*
- **Section B** – This section provides the results of the 2017 Recology Revenue Reconciliation surplus/shortfall, including 2015 close out, that must be added to the 2019 rate adjustment. *The overall SBWMA rate adjustment is a 1.1% increase; however, each Member Agency has a different rate adjustment percentage.*
- **Section C** – This section provides the 2019 Required Rate Adjustment which is the sum of sections A and B. *The overall SBWMA rate adjustment is positive 7.0%; however the rate adjustment percentage varies between the Member Agencies.*
- **Section D** – This section provides the “2018 Estimated Surplus/Shortfall” balance with Recology (**D.1**), the final 2016 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 **\$109,084,553 (F.1)** and the cumulative shortfall of **\$4,688,513 (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 2019 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								
<i>as of 09/20/2018</i>								
2019 Rate Year								
	Total	Atherton	Belmont	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park
<b>A. 2019 RATE YEAR</b>								
<b>2019 Collection Revenue @ 2018 Rates</b>	\$ 104,396,040	\$ 2,932,808	\$ 6,696,778	\$ 10,950,361	\$ 5,002,199	\$ 5,776,820	\$ 3,030,638	\$ 12,126,880
	\$ -							
<b>A.1 2019 Collection Revenue @ 2018 Rates</b>	<b>\$104,396,040</b>	<b>\$2,932,808</b>	<b>\$6,696,778</b>	<b>\$10,950,361</b>	<b>\$5,002,199</b>	<b>\$5,776,820</b>	<b>\$3,030,638</b>	<b>\$12,126,880</b>
<b>A.2 Total Recology Compensation</b>	\$57,969,175	\$1,424,499	\$3,614,257	\$5,746,003	\$2,461,288	\$3,595,489	\$1,977,912	\$5,919,965
<b>A.3 Pass-Through Costs</b>								
<b>A.4 Disposal &amp; Processing Fees</b>	\$37,083,146	\$1,351,080	\$1,790,353	\$4,215,214	\$2,070,666	\$2,102,173	\$1,046,776	\$4,421,624
<b>A.5 Agency Franchise Fees</b>	\$14,993,796	\$304,475	\$1,760,650	\$1,816,041	\$682,507	\$377,305	\$277,105	\$2,088,370
<b>A.6 Total Pass-Through Costs</b>	\$52,076,941	\$1,655,556	\$3,551,003	\$6,031,256	\$2,753,174	\$2,479,479	\$1,323,881	\$6,509,995
<b>A.7 2019 Revenue Requirement</b>	<b>\$110,046,116</b>	<b>\$3,080,055</b>	<b>\$7,165,260</b>	<b>\$11,777,258</b>	<b>\$5,214,462</b>	<b>\$6,074,967</b>	<b>\$3,301,792</b>	<b>\$12,429,960</b>
<b>A.8 2019 Surplus/(Shortfall) estimated</b>	<b>(\$5,650,076)</b>	<b>(\$147,247)</b>	<b>(\$468,482)</b>	<b>(\$826,898)</b>	<b>(\$212,263)</b>	<b>(\$298,147)</b>	<b>(\$271,154)</b>	<b>(\$303,080)</b>
<b>A.9 Agency Fees on A.8 Shortfall</b>	<b>(\$519,622)</b>	<b>(\$14,725)</b>		<b>(\$115,766)</b>	<b>(\$20,267)</b>	<b>(\$14,907)</b>	<b>(\$27,115)</b>	<b>(\$41,219)</b>
<b>A.10 Rate Adjustment Percentage (Associated with 2019 estimated Surplus/Shortfall)</b>	<b>5.9%</b>	<b>5.5%</b>		<b>8.6%</b>	<b>4.6%</b>	<b>5.4%</b>	<b>9.8%</b>	<b>2.8%</b>
<i>See Appendix D - Rate Variance Analysis for detail.</i>								
<b>B. 2017 Final Surplus/(Shortfall)</b>								
					<b>2.2%</b>			
<b>B.1 Surplus/(Shortfall) 2017 FINAL (incl. Interest)</b>	<b>(\$1,105,467)</b>	\$177,245	<b>(\$1,654,671)</b>		<b>(\$101,548)</b>	\$41,260	\$480,114	<b>(\$97,201)</b>
<b>B.2 Agency Fees on B.1 Shortfall</b>	<b>(\$58,494)</b>				<b>(\$9,696)</b>			<b>(\$13,219)</b>
<b>B.3 Rate Adjustment Percentage (Associated with 2017 Final Surplus/Shortfall)</b>	<b>1.1%</b>	<b>-6.0%</b>			<b>2.2%</b>	<b>-0.7%</b>	<b>-15.8%</b>	<b>0.9%</b>
<b>C. 2019 REQUIRED REVENUE ADJUSTMENT</b>								
<b>C.1 Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)</b>	<b>\$111,729,700</b>	<b>\$2,917,535</b>	<b>\$8,819,931</b>	<b>\$11,893,024</b>	<b>\$5,345,972</b>	<b>\$6,048,614</b>	<b>\$2,848,794</b>	<b>\$12,581,599</b>
<b>C.2 Subtotal Surplus/(Shortfall) (A.1 - C.1)</b>	<b>(\$7,333,660)</b>	<b>\$15,273</b>	<b>(\$2,123,153)</b>	<b>(\$942,663)</b>	<b>(\$343,773)</b>	<b>(\$271,794)</b>	<b>\$181,845</b>	<b>(\$454,720)</b>
<b>C.3 Rate Adjustment Percentage (C.2 / A.1)</b>	<b>7.0%</b>	<b>-0.5%</b>		<b>8.6%</b>	<b>6.9%</b>	<b>4.7%</b>	<b>-6.0%</b>	<b>3.7%</b>
<b>D. 2018 Estimated Surplus/(Shortfall)</b>								
<b>D.1 Surplus/(Shortfall), 2018 estimated</b>	<b>(\$228,900)</b>	\$71,315	<b>(\$263,452)</b>	<b>(\$330,080)</b>	\$171,029	\$92,534	<b>(\$119,220)</b>	\$447,182
<b>D.2 Surplus/(Shortfall) 2016 FINAL (incl. Interest)</b>	<b>(\$164,920)</b>		<b>(\$722,423)</b>		<b>(\$117,933)</b>	\$19,279	\$591,910	<b>(\$362,495)</b>
<b>D.3 Net Estimated 2018 Surplus/Shortfall</b>	<b>(\$393,820)</b>	\$71,315	<b>(\$985,875)</b>	<b>(\$330,080)</b>	\$53,096	\$111,813	\$472,690	\$84,687
<b>D.4 Agency Fees on D.3 Estimated Shortfall</b>	<b>(\$70,062)</b>			<b>(\$46,211)</b>				
<b>D.5 Rate Adjustment Percentage (Associated with 2018 Estimated Surplus/Shortfall)</b>	<b>0.4%</b>	<b>-2.4%</b>	<b>14.7%</b>	<b>3.4%</b>	<b>-1.1%</b>	<b>-1.9%</b>	<b>-15.6%</b>	<b>-0.7%</b>
<b>E. Adjustments</b>								
<b>E.1 Miscellaneous Adjustment/Payment</b>	<b>(\$3,109,028)</b>		<b>(\$3,109,028)</b>					
<b>F. TOTAL RATE IMPACT</b>								
<b>F.1 Cumulative Revenue Requirement (C.1-D.3+E.1)</b>	<b>\$109,084,553</b>	<b>\$2,846,220</b>	<b>\$6,696,778</b>	<b>\$12,269,315</b>	<b>\$5,292,876</b>	<b>\$5,936,801</b>	<b>\$2,376,104</b>	<b>\$12,496,912</b>
<b>F.2 Total Surplus/(Shortfall) (A.1 - F.1)</b>	<b>(\$4,688,513)</b>	<b>\$86,588</b>	<b>\$0</b>	<b>(\$1,318,955)</b>	<b>(\$290,677)</b>	<b>(\$159,981)</b>	<b>\$654,534</b>	<b>(\$370,032)</b>
<b>F.3 Total Rate Adjustment Percentage (F.2 / A.1)</b>	<b>4.5%</b>	<b>-3.0%</b>	<b>0.0%</b>	<b>12.0%</b>	<b>5.8%</b>	<b>2.8%</b>	<b>-21.6%</b>	<b>3.1%</b>

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

<b>SBWMA</b>						
<b>TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY</b>						
as of 09/20/2018			<b>2019 Rate Year</b>			
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total
<b>A. 2019 RATE YEAR</b>						
<b>2019 Collection Revenue @ 2018 Rates</b>	\$ 2,796,813	\$ 18,872,161	\$ 8,442,323	\$ 22,848,741	\$ 1,620,927	\$ 3,298,590
Additional Agency Funds						
<b>A.1 2019 Collection Revenue @ 2018 Rates</b>	\$2,796,813	\$18,872,161	\$8,442,323	\$22,848,741	\$1,620,927	\$3,298,590
<b>A.2 Total Recology Compensation</b>	\$1,686,263	\$10,445,524	\$5,163,310	\$12,732,046	\$1,020,981	\$2,181,637
<b>A.3 Pass-Through Costs</b>						
<b>A.4 Disposal &amp; Processing Fees</b>	\$1,065,594	\$7,043,582	\$2,622,168	\$7,750,318	\$537,474	\$1,066,123
<b>A.5 Agency Franchise Fees</b>	\$135,088	\$2,620,447	\$1,140,852	\$3,539,893	\$92,828	\$158,233
<b>A.6 Total Pass-Through Costs</b>	\$1,200,682	\$9,664,029	\$3,763,020	\$11,290,210	\$630,303	\$1,224,356
<b>A.7 2019 Revenue Requirement</b>	\$2,886,945	\$20,109,553	\$8,926,331	\$24,022,257	\$1,651,283	\$3,405,993
<b>A.8 2019 Surplus/(Shortfall) estimated</b>	(\$90,132)	(\$1,237,392)	(\$484,007)	(\$1,173,516)	(\$30,356)	(\$107,403)
<b>A.9 Agency Fees on A.8 Shortfall</b>	(\$4,507)	(\$168,904)	(\$58,081)	(\$46,941)	(\$1,821)	(\$5,370)
<b>A.10 Rate Adjustment Percentage</b> (Associated with 2018 estimated Surplus/Shortfall)	3.4%	7.5%	6.4%	5.3%	2.0%	3.4%
<i>See Appendix D - Rate Variance Analysis for detail.</i>						
<b>B. 2017 Final Surplus/(Shortfall)</b>						
<b>B.1 Surplus/(Shortfall) 2017 FINAL (incl. Interest)</b>	(\$9,174)	(\$221,233)	\$11,948	(\$123,050)	\$54,284	\$336,559
<b>B.2 Agency Fees on B.1 Shortfall</b>	(\$459)	(\$30,198)		(\$4,922)		
<b>B.3 Rate Adjustment Percentage</b> (Associated with 2017 Final Surplus/Shortfall)	0.3%	1.3%	-0.1%	0.6%	-3.3%	-10.2%
<b>C. 2019 REQUIRED REVENUE ADJUSTMENT</b>						
<b>C.1 Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)</b>	\$2,901,084	\$20,529,888	\$8,972,464	\$24,197,169	\$1,598,821	\$3,074,804
<b>C.2 Subtotal Surplus/(Shortfall) (A.1 - C.1)</b>	(\$104,271)	(\$1,657,727)	(\$530,140)	(\$1,348,428)	\$22,107	\$223,786
<b>C.3 Rate Adjustment Percentage (C.2 / A.1)</b>	3.7%	8.8%	6.3%	5.9%	-1.4%	-6.8%
<b>D. 2018 Estimated Surplus/(Shortfall)</b>						
<b>D.1 Surplus/(Shortfall), 2018 estimated</b>	\$19,187	(\$185,244)	(\$146,859)	(\$76,197)	\$75,988	\$14,918
<b>D.2 Surplus/(Shortfall) 2016 FINAL (incl. Interest)</b>	\$76,139	\$88,282	\$476,458	(\$165,971)	(\$14,679)	(\$33,487)
<b>D.3 Net Estimated 2018 Surplus/Shortfall</b>	\$95,326	(\$96,962)	\$329,599	(\$242,168)	\$61,309	(\$18,569)
<b>D.4 Agency Fees on D.3 Estimated Shortfall</b>		(\$13,235)		(\$9,687)		(\$928)
<b>D.5 Rate Adjustment Percentage</b> (Associated with 2018 Estimated Surplus/Shortfall)	-3.4%	0.6%	-3.9%	1.1%	-3.8%	0.6%
<b>E. Adjustments</b>						
<b>E.1 Miscellaneous Adjustment/Payment</b>						
<b>F. TOTAL RATE IMPACT</b>						
<b>F.1 Cumulative Revenue Requirement (C.1-D.3+E.1)</b>	\$2,805,759	\$20,640,085	\$8,642,865	\$24,449,024	\$1,537,512	\$3,094,301
<b>F.2 Total Surplus/(Shortfall) (A1 - F1)</b>	(\$8,945)	(\$1,767,924)	(\$200,541)	(\$1,600,284)	\$83,415	\$204,289
<b>F.3 Total Rate Adjustment Percentage (F.2 / A.1)</b>	0.3%	9.4%	2.4%	7.0%	-5.1%	-6.2%

## **SECTION 5 CONCLUSION**

The SBWMA's review of the 2019 Recology Compensation Application results in the recommendation to increase the 2019 compensation to Recology (i.e., Total Contractor's Compensation) by 1.9% (i.e., \$1,062,323) from the approved 2018 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 2019 vs. 2018; 3) detailed cost comparison of 2019 vs. 2018 by Recology service sectors; and, 4) three tables showing the actual cost allocation process by service sector and the seventeen lines of business.