



COLLECTION AND RECYCLING PROGRAM SUPPORT AND COMPLIANCE

STAFF REPORT

To: SBWMA Board Members
From: Joe La Mariana, Executive Director
John Mangini, Senior Finance Manager
Date: September 30, 2021 Board of Directors Meeting
Subject: SBWMA Final Report Reviewing the 2022 Recology San Mateo County Compensation Application

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2020-28 attached hereto authorizing the following actions:

Approve the SBWMA Final Report Reviewing the 2021 Recology San Mateo County (Recology) Annual Compensation Adjustment Application (**Exhibit A** - Final Report) which delineates the recommended base Total Contractor's Compensation due to Recology for 2021 of \$65,146,744

Summary

The Recology Annual Compensation Adjustment Application (Compensation Application) for 2022 has been thoroughly reviewed by SBWMA staff and an independent out-of-market industry expert firm, RRS Consulting, to ensure that the proscribed process as delineated in the Collection Agreement is being followed, and for mathematical and formulaic accuracy. The result is a recommended 1.7% increase in Recology's compensation for 2022. RRS Consulting's Report on the Compensation Application Review can be found in **Appendix C** of the Draft Report.

During its review of Recology's Compensation Application, Staff and RRS Consulting requested additional supporting data verifying the Lifts data in the Service Level Adjustment portion of the Compensation Application. Through this process a slight discrepancy in the Lift counts submitted in the Compensation Application was identified. Recology's initial assessment indicates that accounts put on "COVID Hold" were captured in the Lifts data query and therefore Lifts are overstated in this Compensation Application with the overall Compensation Application being overstated by less approximately \$50,000. Staff is recommending further review and reconciliation of the Lift counts and that results of this review be adjusted on Recology's 2023 Compensation Application.

Analysis

The SBWMA Draft Report Reviewing the 2022 Recology Compensation Application issued to the TAC and Board on August 10, 2021 addresses Recology's compensation due for 2022 and the Total Revenue Requirement for the 11 member agencies to meet their contractual obligations. The Member Agencies are contractually obligated to set rates to generate revenue to match the 2022 Total Revenue Requirement. Any shortfall in net revenue to Recology by an individual member agency (or agencies) may result in an interest payment due to Recology in the subsequent rate year (e.g., 2021 final surplus or shortfall is determined in 2022 and included in 2023 revenue

requirement). NOTE: Interest only applies if Member Agencies fail to set rates to match the total annual revenue requirement.

The 11 Member Agencies were requested to submit comments on the Draft Report back to the SBWMA by August 27. The Draft Report has been revised based on the feedback received from the Member Agencies and the Final Report was issued to the Board on September 23, 2021, for the Board's consideration at the September 30, 2021 Board of Director's meeting.

SBWMA Review of 2021 Recology Compensation Application

The results of implementing the cost adjustment methodology prescribed in the Member Agency's Franchise Agreements for Solid Waste, Recyclable Materials and Organic Materials Collection Service (Agreements) with Recology to determine the Rate Year Twelve (i.e., 2022) compensation results in Total 2022 Contractor's Compensation of \$65,146,744, which is an increase of \$1,089,814 (1.7% increase from prior year) due primarily to the following:

- The New Recology Restated and Amended Agreement compensation increase methodology based on CPI indices and service levels.
- 2020 revenue reconciliation of surplus/shortfall and interest payments due to/from Recology (Table H in Recology Application).
- Performance Incentive/Disincentive payment to Recology of \$49,971 (Table F in Recology Application).
- Overall, 1.7% Total Compensation increase including compensation for Amendment 1 to the Franchise Agreements for an added fourth Bulky Item Collection Route. (Note: The County of San Mateo and the City of Belmont have yet to approve Amendment 1)
- COVID-19 cost reimbursement of \$91,991.50

Additional Requested Adjustments to Recology's Compensation Application issued on July 16, 2021

Item One: Recology's Request for COVID-19 Pandemic-Related Costs Special Compensation (Staff recommendation: Partial Approval). Section 11.05.A of the Amended and Restated Franchise Agreements, Special Compensation Review, provides in relevant part as follows:

11.05 SPECIAL COMPENSATION REVIEW

- A. **Eligible Items**. The Contractor may apply to the Agency for consideration of a special review of Contractor's Compensation, and the Agency may initiate such a review, if one or more of the following events occur and cause an increase in or decrease to Contractor's Compensation by two percent (2%) or more for the then-current Rate Year. If one or more of the following events occur and cause an increase in or decrease to Contractor's Compensation by less than two percent (2%) for the then-current Rate Year, such cost impact shall be considered at the time the annual Contractor's Compensation adjustment process is performed in accordance with Section 11.02, and Contractor may be compensated retroactively for such cost subject to Agency approval.
2. Flood, earthquake, or other similar catastrophic event affecting the Agency which 3892 is beyond the control of and not the fault of the Contractor.

Recology indicates that the COVID-19 pandemic was a “catastrophic event” as envisioned by this provision in the Franchise Agreements with Member Agencies and, as a result, includes in its compensation application an amount of \$229,874 for “adjustments in customer service, administrative and operational procedures, in order to comply with the State and Local Health and Safety Regulations due to the COVID-19 pandemic.”

Recology indicates it made purchases in the amount of \$45,891 for computers and equipment to maintain a Customer Service Call Center with remote workers. In addition, Recology indicates it spent an additional \$183,983 on other COVID-19 costs during Rate Years 2020 through May of Rate Year 2021. This includes costs for:

- Disposable surgical masks for drivers, mechanics and other administrative employees whose essential services did not allow for them to work remotely.
- Vehicle cleaning services for vehicles utilized by drivers, mechanics and operations employees, who were infected or had potentially been exposed to someone with the COVID-19 virus.
- Sanitation Stations and port-o-potty services for the drivers and mechanics in order to maintain proper and safe social distancing.
- Cleaning supplies and services necessary to disinfect offices and other common areas
- Personal Protective Equipment (PPE), such as disposable surgical masks and latex gloves for drivers, mechanics, and other on-site personnel.

As noted above, Section 11.05 allows for Contractor to request consideration of cost impacts occurring “for the then-current Rate Year” at the time the Annual Contractor’s Compensation adjustment process is being performed and some, but not all, of the requested costs fall within that time frame. **While some of the costs fall within the relevant timeframe, staff recommends a partial approval of the request.** This item was robustly discussed at the Board/TAC Study Session on September 9, 2021 with the Board expressing some agreeability to reimbursing Recology for the \$183,983, as Recology’s essential workers needed to be protected as much as possible while providing essential services to the community. The Board also provided direction to Staff that the computer equipment should not be reimbursed as this equipment could be sold or redeployed. Staff received further direction from the Executive Committee to reimburse Recology for half of the non-computer COVID-19 costs. Staff also received confirmation from three bay area franchised haulers (South San Francisco Scavengers; Republic Services of San Mateo County; Mt. Diablo Resource Recovery) that their companies had no plans to seek cost recovery these materials. Based on Board feedback and direction and our market research, **Staff therefore recommends Board approval for half (50%) of the non-computer costs in the amount of \$91,991.50 (\$183,983/2).**

Item Two: Recology has submitted a compensation proposal to roll out SB1383 beginning in compensation year 2022 (Staff recommendations: 1. Approval of 100% Recology’s 1383-related cost recovery for new commercial/MFD organics collection operations using the existing Service Level Adjustment (SLA) methodology as part of the existing annual Contractor’s Annual Compensation Adjustment Application Process; 2. Execute a Request for Proposal (RFP) to solicit additional 1383-mandated, non-franchised services, including contamination monitoring, commercial/multi-family dwelling program outreach during the program rollout; waiver program management, etc.;).

On July 16, 2021, Recology proposed to the SBWMA, a compensation adjustment to roll out organic containers to commercial and multi-family customers that currently do not subscribe to this service as required by SB1383. SB1383 additionally requires additional compliance tasks, including; contamination monitoring, route auditing and reporting. Recology has included a cost proposal for these additionally required SB1383 non-collection requirements.

At this writing, Staff and Recology are in agreement on recommendation #1, hence, Staff's recommendation to proceed with this approach.

After extended discussion, Staff and Recology are currently unable to reach agreement on a compensation model for the SB 1383-mandated, non-franchised services. Due to an impending January 1, 2022 compliance deadline, Staff recommends the immediate issuance of a RFP to solicit these 1383-mandated, non-franchised services. Should Recology choose to submit an alternate compensation proposal it will be evaluated compared to other responses received.

Recology's 2022 compensation is compared to 2021 in Table 1 below.

Table 1

Total Contractor's Compensation	Recology Compensation			
	2021 Cost	2022 Cost	Change	%
Base Compensation	\$63,899,252	\$65,096,773	\$1,197,521	1.9%
Incentives / Disincentives	\$157,678	\$49,971	\$ (107,707)	-68.3%
Total Contractor's Compensation	\$64,056,930	\$65,146,744	\$1,089,814	1.7%
<i>- Table modified by the SBWMA to contain 50% of non-computer COVID reimbursement request</i>				
<i>- Table includes a compensation amount for Belmont as a placeholder (compensation is not yet determined)</i>				
<i>- Table excludes SB1383 estimated compensation</i>				

The adjustments to compensation for 2022 represent an increase in the total net compensation of 1.7% or \$1,089,814 from 2021. The results of the adjustment process are detailed by expense category in Table 3 of the Draft Report. Table 4 of the Draft Report illustrates the CPI Adjustments, Service Level Adjustments and the addition of the Bulky Item Collection Route (Amendment 1).

Rate Setting and Approval Process

This SBWMA Final Report and recommendation is to determine the compensation owed to Recology for collection services in 2022. This Report also provides Table 8 (Attachment A) which establishes the final Revenue Requirement that will be used as the basis for recommending the 2022 rate adjustments. The Revenue Requirement includes compensation to Recology for solid waste, recyclables and organic materials collection and Pass-Through costs, which include Agency fees, and disposal and processing costs at the Shoreway Environmental Center as well as prior year surplus/shortfall balances owed to/from the Member Agency and Recology.

Article 11 of the Restated and Amended Franchise Agreements states the following:

- Each Member Agency is obligated to set rates as necessary to generate annual gross revenues billed by Recology equal to the approved compensation amount plus all approved pass-through costs.
- If an Agency sets a rate that is below the approved recommendation contained in the Final Report, or if an Agency delays imposing a rate increase effective January 1, 2022, and net revenues billed by Recology in 2022 are less than needed to cover the approved total contractor's compensation delineated in the Final Report, the Agency will be obligated to pay interest to Recology on the difference.

Background

In 2005, the SBWMA and its Member Agencies initiated a five-and-a-half-year collection services contractor selection process that resulted in Recology and the Member Agencies executing Franchise Agreements (“Agreements”) for Collection Services.

In 2017, the SBWMA and its Member Agencies initiated negotiations with Recology to amend the Collection Agreements and extend the term, which resulted in Recology and the Member Agencies executing Restated and Amended Franchise Agreements (“Agreements”) for Collection Services commencing January 1, 2021. The annual compensation adjustment process to Member Agencies is prescribed in Article 11 and Attachment K of the Restated and Amended Franchise Agreements. 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.

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

Fiscal Impact

Variance Analysis

Rate revenue from the SBWMA Member Agencies is calculated in **Attachment A**, Table 8, row F.3 for 2022 rates to cover the Total Revenue Requirement for the Recology cost, pass through costs, and the prior year’s revenue reconciliation surplus/shortfall. Tables comparing 2022 costs to 2021 costs and showing the components of the 2022 rate adjustments by Member Agency are included in the Draft Report as Appendix B – Member Agency Variance Analysis of Total Collection Cost and Rate Impact.

Total Collection Rate Adjustment

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

- **Section A** - This section provides the estimated 2022 Collection Revenue using 2021 rates (**A.1**), the 2022 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2022 Revenue Requirement (**A.7**), the estimated 2022 Surplus/Shortfall balance with Recology (**A.8**), Agency Fees on shortfalls (**A.9**), and the Rate Adjustment Percentage (**A.10**). *Each Member Agency has a different adjustment percentage.*
- **Section B** – This section provides the results of the 2020 Recology Revenue Reconciliation surplus/shortfall that must be added to the 2022 rate adjustment.
- **Section C** – This section provides the cumulative 2022 Required Rate Adjustment which is the sum of sections A and B.
- **Section D** – This section provides the “2021 estimated surplus/(shortfall)” balance with Recology (**D.1**), including the adjusted 2019 surplus/shortfall (**D.2**) and the associated Agency Fees on any net estimated shortfall (**D.4**). The 2021 Revenue Reconciliation will be finalized in 2023, similar to how the 2020 Revenue Reconciliation was finalized in 2022.

- **Section E** – This section includes an adjustment for Belmont’s unique agreement with Recology.
- **Section F** – This section provides the “Cumulative Revenue Requirement” (F.1)” and the cumulative surplus (F.2) which includes the result of Sections C, D and E. **The overall SBWMA calculated rate adjustment is on line (F.3).**

Attachments:

Resolution 2021-28

Attachment A – Table 8 Total Collection Rate Adjustment

Exhibit A – SBWMA Draft Report Reviewing the 2021 Recology San Mateo County Compensation

Exhibit A Appendices - Available online only at www.rethinkwaste.org:

- [APPENDIX A –Recology 2022 revised Compensation Application Issued on July 16, 2021. Revised from version submitted on June 15](#)
- [APPENDIX B – Member Agency Variance Analysis of Total Collection Cost and Rate Impact Comparing 2022 with 2021](#)
- [APPENDIX C – RRS Consulting’s Report Reviewing Recology’s 2022 Compensation Adjustment Application \(Including Recology’s Responses to SBWMA Questions and Comments\)](#)



RESOLUTION NO. 2021-28
**RESOLUTION OF THE SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY BOARD OF DIRECTORS
APPROVING THE RECOLOGY SAN MATEO COUNTY 2022 COMPENSATION
APPLICATION AT THE FINAL SBWMA REPORT**

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

WHEREAS, The SBWMA prepared and issued to the SBWMA Board of Directors on August 10, 2021 the SBWMA Draft Report Reviewing the 2022 Recology Compensation Application (Report); and,

WHEREAS, The Draft Report issued by the SBWMA on August 10, 2021 was updated based on feedback from Member Agencies and the SBWMA subsequently issued the Final Report (**Exhibit A**) to the Board of Directors on September 23, 2021; and,

WHEREAS, The Final Report recommends a 1.7% increase in the total contractor’s compensation when compared to the 2021 compensation approved by the SBWMA Board of Director’s on September 24, 2020 per Resolution No. 2019-37.

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

1. The SBWMA Final Report Reviewing the 2022 Recology San Mateo County Compensation Application.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 30th day of September, 2021, by the following vote:

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

I HEREBY CERTIFY that the foregoing Resolution No. 2021-28 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on September 30, 2021.

ATTEST:

Alicia Aguirre, Chairperson of SBWMA

Cyndi Urman, Clerk of the Board

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
as of 09/23/2021							
2022 Rate Year							
	Belmont *	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park	
A. 2022 RATE YEAR							
A.1	2022 Collection Revenue @ 2021 Rates	\$7,403,489	\$11,070,046	\$5,389,157	\$6,316,861	\$3,408,650	\$11,820,629
A.2	Total Recology Compensation	\$4,105,136	\$6,379,955	\$2,855,996	\$4,013,555	\$2,082,755	\$6,898,597
A.3	Pass-Through Costs						
A.4	Disposal & Processing Fees	\$1,732,663	\$3,244,890	\$2,174,161	\$2,175,471	\$1,193,349	\$3,652,711
A.5	Agency Franchise Fees	\$2,051,120	\$1,844,348	\$649,504	\$401,290	\$312,992	\$1,974,727
A.6	Total Pass-Through Costs	\$3,783,783	\$5,089,239	\$2,823,666	\$2,576,761	\$1,506,341	\$5,627,438
A.7	2022 Revenue Requirement	\$7,888,919	\$11,469,194	\$5,679,661	\$6,590,315	\$3,589,096	\$12,526,034
A.8	2022 Surplus/(Shortfall) estimated	(\$485,430)	(\$399,149)	(\$290,504)	(\$273,454)	(\$180,446)	(\$705,405)
A.9	Agency Fees on A.8 Shortfall		(\$55,881)	(\$27,737)	(\$13,673)	(\$18,045)	(\$95,935)
A.10	Rate Adjustment Percentage (Associated with 2022 estimated Surplus/Shortfall)		4.1%	5.9%	4.5%	5.8%	6.8%
B. 2020 Final Surplus/(Shortfall)							
B.1	Surplus/(Shortfall) 2020 FINAL (incl. Interest)			\$79,221	\$365,083	\$276,148	(\$84,890)
B.2	Agency Fees on B.1 Shortfall						(\$11,545)
B.3	Rate Adjustment Percentage (Associated with 2020 Final Surplus/Shortfall)			-1.5%	-5.8%	-8.1%	0.8%
C. 2022 REQUIRED REVENUE ADJUSTMENT							
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$7,888,919	\$11,525,075	\$5,628,177	\$6,238,905	\$3,330,993	\$12,718,405
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	(\$485,430)	(\$455,029)	(\$239,020)	\$77,956	\$77,658	(\$897,776)
C.3	Rate Adjustment Percentage (C.2 / A.1)		4.1%	4.4%	-1.2%	-2.3%	7.6%
D. 2021 Estimated Surplus/(Shortfall)							
D.1	Surplus/(Shortfall), 2021 estimated		(\$388,011)	(\$177,138)	(\$180,502)	(\$122,155)	(\$631,433)
D.2	Surplus/(Shortfall) 2019 FINAL (incl. Interest)			\$57,124	\$148,378	\$307,175	\$309,418
D.3	Net Estimated 2021 Surplus/Shortfall		(\$388,011)	(\$120,014)	(\$32,124)	\$185,020	(\$322,015)
D.4	Agency Fees on D.3 Estimated Shortfall		(\$54,322)	(\$11,459)	(\$1,606)		(\$43,794)
D.5	Rate Adjustment Percentage (Associated with 2021 Estimated Surplus/Shortfall)		4.0%	2.4%	0.5%	-5.4%	3.1%
E. Adjustments							
E.1	Miscellaneous Adjustment/Payment						
F. TOTAL RATE IMPACT							
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$7,888,919	\$11,967,408	\$5,759,650	\$6,272,635	\$3,145,972	\$13,084,214
F.2	Total Surplus/(Shortfall) (A.1 - F.1)	(\$485,430)	(\$897,362)	(\$370,494)	\$44,226	\$262,678	(\$1,263,585)
F.3	Total Rate Adjustment Percentage (F.2 / A.1)		6.6%	8.1%	6.9%	-0.7%	-7.7%

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
as of 09/23/2021			2022 Rate Year				
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total	
A. 2022 RATE YEAR							
A.1	2022 Collection Revenue @ 2021 Rates	\$3,218,707	\$21,249,087	\$9,529,785	\$24,833,973	\$1,837,488	\$3,615,765
A.2	Total Recology Compensation	\$2,092,001	\$11,959,005	\$6,032,578	\$14,956,830	\$1,132,870	\$2,529,417
A.3	Pass-Through Costs						
A.4	Disposal & Processing Fees	\$1,083,838	\$6,527,126	\$2,626,054	\$7,612,755	\$538,744	\$1,105,885
A.5	Agency Franchise Fees	\$154,632	\$3,042,005	\$1,298,538	\$4,122,801	\$105,261	\$174,158
A.6	Total Pass-Through Costs	\$1,238,469	\$9,569,131	\$3,924,592	\$11,735,555	\$644,005	\$1,280,044
A.7	2022 Revenue Requirement	\$3,330,471	\$21,528,136	\$9,957,170	\$26,692,385	\$1,776,876	\$3,809,460
A.8	2022 Surplus/(Shortfall) estimated	(\$111,763)	(\$279,049)	(\$427,385)	(\$1,858,412)	\$60,612	(\$193,695)
A.9	Agency Fees on A.8 Shortfall	(\$5,588)	(\$38,090)	(\$51,286)	(\$74,336)		(\$9,685)
A.10	Rate Adjustment Percentage (Associated with 2018 estimated Surplus/Shortfall)	3.6%	1.5%	5.0%	7.8%	-3.3%	5.6%
B. 2020 Final Surplus/(Shortfall)							
B.1	Surplus/(Shortfall) 2020 FINAL (incl. Interest)	\$414,481	\$1,047,452	\$738,906	(\$308,256)	\$211,130	\$68,804
B.2	Agency Fees on B.1 Shortfall				(\$12,330)		
B.3	Rate Adjustment Percentage (Associated with 2020 Final Surplus/Shortfall)	-12.9%	-4.9%	-7.8%	1.3%	-11.5%	-1.9%
C. 2022 REQUIRED REVENUE ADJUSTMENT							
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$2,921,578	\$20,518,774	\$9,269,550	\$27,087,308	\$1,565,746	\$3,750,341
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	\$297,130	\$730,313	\$260,235	(\$2,253,335)	\$271,742	(\$134,576)
C.3	Rate Adjustment Percentage (C.2 / A.1)	-9.2%	-3.4%	-2.7%	9.1%	-14.8%	3.7%
D. 2021 Estimated Surplus/(Shortfall)							
D.1	Surplus/(Shortfall), 2021 estimated	\$10,939	\$142,406	(\$369,943)	(\$1,158,458)	\$96,749	(\$87,721)
D.2	Surplus/(Shortfall) 2019 FINAL (incl. Interest)	\$186,576	\$117,943	\$163,382	\$1,382,278	\$136,383	\$421,171
D.3	Net Estimated 2021 Surplus/Shortfall	\$197,515	\$260,349	(\$206,561)	\$223,820	\$233,132	\$333,450
D.4	Agency Fees on D.3 Estimated Shortfall			(\$24,787)			
D.5	Rate Adjustment Percentage (Associated with 2021 Estimated Surplus/Shortfall)	-6.1%	-1.2%	2.4%	-0.9%	-12.7%	-9.2%
E. Adjustments							
E.1	Miscellaneous Adjustment/Payment						
F. TOTAL RATE IMPACT							
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$2,724,063	\$20,258,425	\$9,500,899	\$26,863,488	\$1,332,613	\$3,416,892
F.2	Total Surplus/(Shortfall) (A1 - F1)	\$494,644	\$990,662	\$28,886	(\$2,029,515)	\$504,874	\$198,874
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-15.4%	-4.7%	-0.3%	8.2%	-27.5%	-5.5%



SBWMA **FINAL** REPORT REVIEWING THE 2022 RECOLOGY SAN MATEO COUNTY COMPENSATION APPLICATION

September 23rd, 2021

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APPENDICES

Available online only at www.rethinkwaste.org

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- APPENDIX B** – [Member Agency Variance Analysis of Total Collection Cost and Rate Impact Comparing 2022 with 2021](#)
- APPENDIX C** – [RRS Consulting’s Report Reviewing Recology’s 2022 Compensation Adjustment Application \(Including Recology’s Responses to SBWMA Questions and Comments\)](#)

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) 2021 Compensation Application (Application) for completeness, accuracy and consistency as prescribed in the Restated and Amended 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 Restated and Amended Franchise Agreements. Specifically, this process includes applying the change to various indices to the approved 2021 compensation, applying a Service Level Adjustment (SLA) to the 2021 compensation specific to each Member Agencies and adding the prior year's revenue reconciliation balances. Service Level Adjustment (SLA) is further described in Section 1.D Recology Service Level Adjustment Process by Member Agency.

This **Final** Report provides the results of SBWMA's review of Recology's 2022 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.

The SBWMA provides a calculated total rate impact for each Member Agency (**see Table 8 on pages 16 and 17**) and calculated rate adjustment for 2022, 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 2022 Recology Compensation Application was submitted to the SBWMA and Member Agencies on June 15, 2021. On June 29, 2021 the SBWMA submitted questions and comments to Recology. On July 16, 2021 Recology submitted a revised 2021 Compensation Application and responses to the SBWMA's questions and comments. **Appendix A** provides Recology's revised July 16 version of its 2022 Compensation Application. **Appendix C** provides the SBWMA's questions and comments to Recology's Compensation Application, and Recology's response submitted on July 16. The SBWMA provided all Member Agencies their detailed revenue, agency fees, and disposal and processing cost projections for 2022 on July 23rd.

Additional Requested Adjustments to Recology's Compensation Application issued on July 16, 2021

Item one: Recology's Request for COVID-19 Pandemic Related Costs Special Compensation (Recommendation: Partial Approval). Section 11.05.A of the Amended and Restated Franchise Agreements, Special Compensation Review, provides in relevant part as follows:

11.05 SPECIAL COMPENSATION REVIEW

- A. **Eligible Items.** The Contractor may apply to the Agency for consideration of a special review of Contractor's Compensation, and the Agency may initiate such a review, if one or more of the following events occur and cause an increase in or decrease to Contractor's Compensation by

two percent (2%) or more for the then-current Rate Year. If one or more of the following events occur and cause an increase in or decrease to Contractor's Compensation by less than two percent (2%) for the then-current Rate Year, such cost impact shall be considered at the time the annual Contractor's Compensation adjustment process is performed in accordance with Section 11.02, and Contractor may be compensated retroactively for such cost subject to Agency approval.

2. Flood, earthquake, or other similar catastrophic event affecting the Agency which 3892 is beyond the control of and not the fault of the Contractor.

Recology indicates that the COVID-19 pandemic was a "catastrophic event" as envisioned by this provision in the Franchise Agreements with Member Agencies and, as a result, includes in its compensation application an amount of \$229,874 for "adjustments in customer service, administrative and operational procedures, in order to comply with the State and Local Health and Safety Regulations due to the COVID-19 pandemic."

Recology indicates it made purchases in the amount of \$45,891 for computers and equipment to maintain a Customer Service Call Center with remote workers. In addition, Recology indicates it spent an additional \$183,983 on other COVID-19 costs during Rate Years 2020 through May of Rate Year 2021. This includes costs for:

- Disposable surgical masks for drivers, mechanics and other administrative employees whose essential services did not allow for them to work remotely.
- Vehicle cleaning services for vehicles utilized by drivers, mechanics and operations employees, who were infected or had potentially been exposed to someone with the COVID-19 virus.
- Sanitation Stations and port-o-potty services for the drivers and mechanics in order to maintain proper and safe social distancing.
- Cleaning supplies and services necessary to disinfect offices and other common areas
- Personal Protective Equipment (PPE), such as disposable surgical masks and latex gloves for drivers, mechanics, and other on-site personnel.

As noted above, Section 11.05 allows for Contractor to request consideration of cost impacts occurring "for the then-current Rate Year" at the time the Annual Contractor's Compensation adjustment process is being performed and some, but not all, of the requested costs fall within that time frame. While some of the costs fall within the relevant timeframe, staff recommends a partial approval of the request. This item was discussed at the Board/TAC Study Session on September 9, 2021 with the Board expressing some agreeability to reimbursing Recology for the \$183,983, as Recology's essential workers needed to be protected as much as possible while providing essential services to the community. The Board also provided direction to Staff that the computer equipment should not be reimbursed as this equipment could be sold or redeployed. Staff received further direction from the Executive Committee to reimburse Recology for half of the non-computer COVID-19 costs. Staff is recommending Board approval for half the non-computer costs in the amount of \$91,991.50.

Item Two: Recology has submitted a compensation proposal to roll out SB1383 beginning in compensation year 2022 (Recommendation: Pending). On July 16, 2021, Recology proposed to the SBWMA, a compensation adjustment to roll out organic containers to commercial and multi-family

customers that currently do not subscribe to this service as required by SB1383. SB1383 additionally requires additional tasks, including; contamination monitoring, route auditing and reporting. Recology has include a cost proposal for these additionally required SB1383 non-collection requirements. The SBWMA is currently negotiating this compensation with Recology.

The **Final** Report assigns an individualized total compensation amount due to Recology from each Member Agency, which yields the overall total compensation to Recology. All tables in this report that illustrate an overall compensation includes a compensation amount for the City of Belmont that is not currently accurate, as City of Belmont has a unique compensation adjustment methodology and the two parties have yet to agree a compensation total as of this writing.

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 2022 solid waste rates, if necessary.

Table 1
2021 Schedule to Approve Recology 2022 Compensation

Due Date	Milestone
June 15, 2021	Recology 2022 Compensation Application Submitted to Member Agencies and SBWMA
June 29, 2021	Member Agencies and SBWMA Comments Due to Recology
July 17, 2021	Revised Recology 2021 Compensation Application Submitted to Member Agencies and SBWMA
August 10, 2021	SBWMA Draft Report Reviewing the 2022 Recology Compensation Application Issued to Member Agencies
August 27, 2021	Member Agencies Written Comments on SBWMA Draft Report Due to SBWMA
September 9, 2021	SBWMA Board/TAC Meeting: Staff Update and Discussion
September 16, 2021	SBWMA Final Report Issued to Member Agencies/Board
September 30, 2021	SBWMA Board Meeting: Consideration of Final Report

1.C Summary of Notable Items in the 2022 Recology Compensation Application

Notable items included in the 2022 Recology Compensation Application include:

- Application of the Recology Restated and Amended Agreement compensation increase methodology, which is based on CPI indices and service levels.
- 2020 revenue reconciliation of surplus/shortfall and interest payments due to/from Recology (Table H in Recology Application).
- Performance Incentive/Disincentive payment to Recology of \$49,971 (Table F in Recology Application).
- Overall, 1.6% Total Compensation increase including a fuel index decrease of 8.1%
- COVID-19 cost reimbursement of \$91,991.50

1.D Recology Service Level Adjustment by Member Agency

The annual compensation adjustment process to Member Agencies is prescribed in Article 11 and Attachment K of the Restated and Amended Franchise Agreements. 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.

The 2022 Recology Compensation Application adjusts Attachment N costs by applying the various April 2020 to April 2021 index change.

Next, service level adjustments are applied to: Direct Labor Related Costs; Direct Fuel Costs; and Other Direct Costs. For Rate Year 2022, the Single-Family lines of business service level adjustments are 100% of the percentage change in the rolling three-year average number of Solid Waste accounts in each Member Agency. In Rate Year 2022, 100% of the change in service levels for Commercial lines of business, lifts shall be used rather than accounts; and, for Drop Box lines of business, pulls shall be used rather than accounts. Indirect Costs are adjusted by 65% change in the three-year rolling average in accounts for residential and lifts for commercial.

Per section 7.12 of the Franchise Agreements, Recology conducted its Annual Route Assessment over a four-week period in 2021. The assessment is intended to annually confirm and update Recology's data related to customer accounts, service levels and operations, including, but not limited to: (1) number of Accounts, (2) Bin and Cart lifts, and (3) Drop Box pulls to be used as the basis for the rolling three-year Service Level Adjustment. Recology submitted its 2022 Compensation Adjustment Application using the Assessment four-week period in April 2021.

Recommendation

Based on the net results of the cost adjustments calculated in the 2022 Recology Compensation Application, SBWMA recommends that the Board approve an adjustment to Recology's 2022 compensation as delineated in **Table 2** below. **Table 2** includes a placeholder amount for the City of Belmont. The City of Belmont's Franchise Agreement has a unique compensation methodology and Belmont's compensation is not available as of this writing. **Table 2** summarizes the adjusted 2022 costs and changes from 2021. The total change in Recology's compensation for 2022 is an increase of \$1,089,814 or 1.7% from 2021. This increase includes \$631,451 approved compensation for Amendment 1 to the Franchise Agreements for an added fourth Bulky Item Collection Route (Note: The County of San Mateo and The City of Belmont have yet to approve Amendment 1). Excluding the Amendment 1 Recology's compensation increases \$458,363 or 0.7%. The SB1383 additional compensation estimate is not included in **Table 2**.

Table 2
Summary of Adjusted 2021 Costs to 2022 Costs

RECOLOGY COMPENSATION SUMMARY	2021 Cost	2022 Cost	\$ Change	% Change
Total Annual Cost of Operations	\$ 56,820,574	\$ 57,809,133	\$ 988,559	1.7%
Profit	5,964,590	6,068,362	103,772	1.7%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	\$ 62,785,164	\$ 63,877,495	\$ 1,092,331	1.7%
Contractor Pass-Through Costs				
Interest Expense ¹	\$ 1,114,088	\$ 1,127,286	\$ 13,198	1.2%
Interest Expense on Implementation Cost	-	-	-	
Contract Changes to Specific Agencies ²	-	91,992	91,992	
Total Contractor Pass-Through Costs	\$ 1,114,088	\$ 1,219,278	\$ 105,190	9.4%
BASE CONTRACTOR'S COMPENSATION	\$ 63,899,252	\$ 65,096,773	\$ 1,197,521	1.9%
Other Adjustments				
Performance Incentives / Disincentives	\$ 157,678	\$ 49,971	\$ (107,707)	68.3%
Total Other Adjustments	\$ 157,678	\$ 49,971	\$ (107,707)	68.3%
TOTAL CONTRACTOR'S COMPENSATION	\$ 64,056,930	\$ 65,146,744	\$ 1,089,814	1.7%

¹ Interest expense is per the negotiated Restated and Amended Franchise Agreements

² COVID-19 Special Compensation modified by the SBWMA to contain 50% of non-computer expenses

SECTION 2 BACKGROUND

2.A Franchise Agreement Terms

Ten of the eleven 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 Restated and Amended 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 Restated and Amended Franchise Agreements prescribes a detailed process to adjust Recology's costs during the full fifteen-year term of the Restated and Amended 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 and service levels.

The 2022 Recology Compensation Application adjusts Attachment N costs by applying the various April 2020 to April 2021 index change.

Service level adjustments are applied to: Direct Labor Related Costs; Direct Fuel Costs; and Other Direct Costs. For Rate Year 2022, the Single-Family lines of business service level adjustments are 100% of the percentage change in the rolling three-year average number of Solid Waste accounts in each Member Agency. In Rate Year 2022, 100% of the change in service levels for Commercial lines of business, lifts shall be used rather than accounts; and, for Drop Box lines of business, pulls shall be used rather than accounts. Indirect Costs are adjusted by 65% change in the three-year rolling average in accounts for residential and lifts for commercial.

As previously stated at many Board and TAC meetings during the past few years, Staff strongly recommend that each Member Agency continue to build its rate stabilization funds to help offset the step up in base costs between rate year 2020 and rate year 2021.

2.B Annual Revenue Reconciliation

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 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 2022).

The Recology 2020 Revenue Reconciliation Report was submitted to the SBWMA and Member Agencies on March 31, 2021. Staff reviewed this 2020 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 24, 2021 the Board reviewed agenda item 4E which included the audit findings and results (i.e., final 2020 surplus/shortfall and interest) of the revenue reconciliation that will be added to or subtracted from Recology's 2022 compensation. Agencies can also request a refund of surplus balances or make payments to Recology for shortfalls. The final 2020 Revenue Reconciliation balances, net of payments, have been included in Recology's 2022 Compensation Application (see Table H).

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. The SBWMA contracted with RRS Consulting to conduct a thorough review of the data, calculations, index adjustments, and the Service Level Adjustment calculation. 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 16 based on Staff and RRS Consulting's comments. The questions and comments submitted to the company during the initial review period in June are provided in **Appendix C**. RRS Consulting's Report on the Compensation Application Review can be found in **Appendix C**.

During the review of Recology's Compensation Application, Staff and RRS Consulting requested additional supporting data verifying the Lifts data in the Service Level Adjustment portion of the Compensation Application. Through this process a slight discrepancy in the Lift counts submitted in the Compensation Application was identified. Recology's initial assessment indicates that accounts put on COVID Hold were captured in the Lifts data query and therefore Lifts are overstated in the Compensation Application with the overall Compensation Application being overstated by approximately \$50,000. Staff is recommending further review and reconciliation of the Lift counts and that results of this review be adjusted on Recology's 2023 Compensation Application.

SECTION 3 2022 RECOLOGY COMPENSATION APPLICATION

3.A Description of Compensation Adjustments

The 2022 Recology Compensation Application is based on each Member Agency's base compensation in their specific Restated and Amended Franchise Agreements, adjusting for indices and service level as previously described to arrive at the 2022 compensation by cost category. In the Compensation Application, the term "cost" really refers to "compensation." Please note this does not mean Recology's "true" costs. The SBWMA moved from a "cost plus" compensation model to a "fixed price plus index adjustment" compensation methodology with the Recology contract that started on January 1, 2011. The Restated and Amended Franchise Agreements, starting January 1, 2021, includes the service level compensation adjustment and index compensation adjustment.

The Franchise Agreements with Recology also provide for additional compensation adjustments for special issues related to performance incentive/disincentive payments (and liquidated damages).

Recology Annual Revenue Reconciliation Report for 2020. Recology submitted a Revenue Reconciliation Report for 2020 to the SBWMA on March 31, 2021 which compares the approved compensation owed to Recology for 2020 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 2020 surplus balance including interest is \$2,808,079 due from Recology after the payment from the City of Burlingame for their 2020 shortfall. The balance due from Recology can be found B.1 on **Table 8**.

Performance Incentive/Disincentive Payments (and Liquidated Damages). Recology reported the 2020 Performance Incentives/Disincentives and Liquidated Damages calculations which was reviewed and approved by the SBWMA and R3 Consulting. The total annual Recology recycling diversion incentive payment from 2011 to 2020 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)
- 2019 - \$168,964 (diversion incentive payment to Recology)
- 2020 - \$96,691 (diversion incentive payment to Recology)

Recology's 2020 diversion incentive payment is \$96,691 including Belmont. The diversion incentive payment is offset by Performance penalties. The net amount owed to Recology and added to Recology's 2021 compensation is \$49,971 including Belmont (Table F in Recology's Application Appendix A).

3.B Adjustment of 2021 Compensation to 2022

As prescribed in Article 11, Attachment K and Attachment N of the Restated and Amended Franchise Agreements, the adjustment of the 2021 compensation to 2022 compensation is based on each Member Agency's negotiated 2021 compensation, which is adjusted by indices and service level adjustment. The 2022 increase also includes \$631,451 approved compensation for Amendment 1 to the Franchise Agreements for an added fourth Bulky Item Collection Route (Note: The County of San Mateo and The City of Belmont have yet to approve Amendment 1).

Table 3 on the following page provides the detailed results from making all compensation adjustments from 2021 to 2022. The application of all adjustment factors results in an overall increase in Recology's base 2022 compensation totaling \$1,098,814 or 1.7% from 2021.

**Table 3
Results of Adjustments of 2021 Costs to 2022 Costs**

RECOLOGY COMPENSATION DETAIL	2021 Cost	2022 Cost	% of Total Cost	\$ Change	% Change
Annual Cost of Operations					
Direct Labor-Related Costs					
Wages	\$ 19,234,446	\$ 19,816,071	30.4%	\$ 581,625	3.0%
Benefits	8,892,493	9,057,453	13.9%	164,960	1.9%
Payroll Taxes	1,600,307	1,605,102	2.5%	4,795	0.3%
Workers Compensation Insurance	1,370,391	1,420,115	2.2%	49,724	3.6%
Total Direct Labor Related-Costs	\$ 31,097,637	\$ 31,898,740	49.0%	\$ 801,103	2.6%
Direct Fuel Costs	2,530,275	2,325,454	3.6%	(204,821)	-8.1%
Other Direct Costs	2,885,564	2,951,211	4.5%	65,647	2.3%
Depreciation					
- Collection Vehicles	2,968,038	3,019,471	4.6%	51,433	1.7%
- Containers	1,141,479	1,141,479	1.8%	(0)	0.0%
Total Depreciation	\$ 4,109,517	\$ 4,160,950	6.4%	\$ 51,432	1.3%
Allocated Indirect Costs excluding Depreciation					
General and Administrative	\$ 9,308,830	\$ 9,474,882	14.5%	\$ 166,052	1.8%
Operations	1,871,323	1,900,981	2.9%	29,658	1.6%
Vehicle Maintenance	3,576,540	3,633,226	5.6%	56,686	1.6%
Container Maintenance	1,326,704	1,349,505	2.1%	22,801	1.7%
Total Allocated Indirect Costs excluding Depreciation	\$ 16,083,397	\$ 16,358,593	25.1%	\$ 275,196	1.7%
Total Allocated Indirect Depreciation Costs	114,184	114,184	0.2%	0	0.0%
Annual Implementation Cost Amortization	-	-	0.0%	-	#DIV/0!
Total Annual Cost of Operations	\$ 56,820,574	\$ 57,809,133	88.7%	\$ 988,559	1.7%
Profit	5,964,591	6,068,362	9.3%	103,771	1.7%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	\$ 62,785,165	\$ 63,877,495	98.1%	\$ 1,092,330	1.7%
Contractor Pass-Through Costs					
Interest Expense	\$ 1,114,088	\$ 1,127,286	1.7%	\$ 13,198	1.2%
Interest Expense on Implementation Cost	-	-	0.0%	-	#DIV/0!
Contract Changes to Specific Agencies	-	91,992	0.1%	91,992	#DIV/0!
Total Contractor Pass-Through Costs	1,114,088	1,219,278	1.9%	105,190	9.4%
BASE CONTRACTOR'S COMPENSATION	\$ 63,899,253	\$ 65,096,773	99.9%	\$ 1,197,520	1.9%
Other Adjustments					
Performance Incentives / Disincentives	157,678	49,971	0.1%	(107,707)	68.3%
Total Other Adjustments	157,678	49,971	0.1%	(107,707)	68.3%
TOTAL CONTRACTOR'S COMPENSATION	\$ 64,056,931	\$ 65,146,744	100.0%	\$ 1,089,813	1.7%

Table modified by the SBWMA to contain 50% of non-computer COVID reimbursement request

Table 4 below denotes the total cost adjustment by Member Agency (excluding 2020 Incentive/Disincentive). Note: The City of Belmont has a unique compensation methodology. As of this writing, Belmont’s 2022 compensation to Recology is not available and therefore excluded from **Table 4**.

**Table 4
Results of Cost Adjustments**

2022 Total by Member Agency	Final Approved 2021 Compensation	BIC Route	BIC Route %	CPI	
				Adjustment	CPI %
Burlingame	6,395,164	43,894	0.69%	68,605	1.07%
East Palo Alto	2,772,345	35,830	1.29%	29,443	1.06%
Foster City	3,952,237	41,491	1.05%	41,699	1.06%
Hillsborough	2,047,304	17,238	0.84%	19,820	0.97%
Menlo Park	6,878,654	45,799	0.67%	70,855	1.03%
Redwood City	11,668,025	118,521	1.02%	123,297	1.06%
San Carlos	5,894,847	54,682	0.93%	61,633	1.05%
San Mateo	14,592,828	165,639	1.14%	154,856	1.06%
West Bay Sanitary Dis	1,106,508	12,121	1.10%	11,217	1.01%
Unincorporated County	2,468,225	30,437	1.23%	25,492	1.03%
North Fair Oaks	2,017,978	20,202	1.00%	20,890	1.04%

Service Level Adjustment (SLA)	Service Level Adjustment %	COVID-19 Costs	COVID-19 %	Total Compensation Including BIC Route, CPI, SLA	Total %
(143,871)	-2.25%	9,007	0.14%	6,372,799	-0.35%
10,998	0.40%	4,031	0.15%	2,852,647	2.90%
(30,505)	-0.77%	5,665	0.14%	4,010,586	1.48%
(5,349)	-0.26%	2,941	0.14%	2,081,954	1.69%
(110,932)	-1.61%	9,735	0.14%	6,894,111	0.22%
21,562	0.18%	16,887	0.14%	11,948,292	2.40%
9,470	0.16%	8,517	0.14%	6,029,149	2.28%
10,679	0.07%	21,129	0.14%	14,945,132	2.41%
1,003	0.09%	1,600	0.14%	1,132,449	2.34%
619	0.03%	3,573	0.14%	2,528,346	2.44%
28,219	1.40%	2,955	0.15%	2,090,244	3.58%

Table Excludes Incentive/Disincentive

Table Excludes Belmont as compensation is not final

3.C Recommended Adjustment to Recology’s Compensation for 2022

Based on the net results of the compensation adjustments previously described and the analysis of the 2022 Recology Compensation Application, SBWMA is recommending that the SBWMA Board approve an

adjustment to Recology's 2022 compensation as delineated in **Table 5 – Comparison of 2021 and 2022 Compensation**. The total adjustment to Recology's contractor's compensation is a 1.7% increase. Note that **Table 5** Below includes The City of Belmont's calculated compensation for ease of reconciling. Once The City of Belmont's actual 2022 compensation is available subsequent reports and all tables within will be updated.

**Table 5
Comparison of 2021 and 2022 Compensation**

RECOLOGY COMPENSATION SUMMARY	2021 Cost	2022 Cost	\$ Change	% Change
Total Annual Cost of Operations	\$ 56,820,574	\$ 57,809,133	\$ 988,559	1.7%
Profit	5,964,590	6,068,362	103,772	1.7%
Operating Ratio	90.5%	90.5%		
Total Operating Costs	\$ 62,785,164	\$ 63,877,495	\$ 1,092,331	1.7%
Contractor Pass-Through Costs				
Interest Expense ¹	\$ 1,114,088	\$ 1,127,286	\$ 13,198	1.2%
Interest Expense on Implementation Cost	-	-	-	
Contract Changes to Specific Agencies ²	-	91,992	91,992	
Total Contractor Pass-Through Costs	\$ 1,114,088	\$ 1,219,278	\$ 105,190	9.4%
BASE CONTRACTOR'S COMPENSATION	\$ 63,899,252	\$ 65,096,773	\$ 1,197,521	1.9%
Other Adjustments				
Performance Incentives / Disincentives	\$ 157,678	\$ 49,971	\$ (107,707)	68.3%
Total Other Adjustments	\$ 157,678	\$ 49,971	\$ (107,707)	68.3%
TOTAL CONTRACTOR'S COMPENSATION	\$ 64,056,930	\$ 65,146,744	\$ 1,089,814	1.7%
¹ Interest expense is per the negotiated Restated and Amended Franchise Agreements				
² COVID-19 Special Compensation modified by the SBWMA to contain 50% of non-computer expenses				

3.D Recology Cost Allocation Process by Member Agency

Cost allocations by Member Agency have been abolished in the Restated and Amended Franchise Agreements.

3.E Recology's Total Compensation by Member Agency

The Contractors Total Compensation by Member Agency is provided in **Table 6 – Member Agency Cost**. The cost by line of business (Residential, Commercial/MFD and Agency Facility) for each Member Agency is found in Recology's Compensation Application as Appendix 3. The City of Belmont's compensation to Recology is excluded from **Table 6**. Once The City of Belmont's actual 2022 compensation is available subsequent reports and all tables within will be updated.

Table 6 – Member Agency Cost

	Compensation 2022	Burlingame	East 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	\$19,816,071	\$1,987,452	\$828,339	\$1,200,324	\$643,409	\$2,065,227	\$653,762	\$3,624,536	\$1,790,916	\$4,612,223	\$342,868	\$761,037
Benefits for CBAs	\$9,057,453	\$895,119	\$383,399	\$547,922	\$300,258	\$932,136	\$301,175	\$1,660,444	\$814,814	\$2,107,475	\$158,657	\$355,625
Payroll Taxes	\$1,605,102	\$160,984	\$67,095	\$97,226	\$52,116	\$167,283	\$52,955	\$293,587	\$145,064	\$373,590	\$27,772	\$61,644
Workers Compensation Insurance	\$1,420,115	\$142,175	\$59,487	\$86,064	\$46,067	\$147,741	\$46,844	\$259,791	\$128,315	\$330,780	\$24,587	\$54,621
Total Direct Labor Related-Costs	\$31,898,740	\$3,185,731	\$1,338,320	\$1,931,536	\$1,041,850	\$3,312,388	\$1,054,735	\$5,838,359	\$2,879,109	\$7,424,068	\$553,884	\$1,232,926
Direct Fuel Costs	\$2,325,454	\$219,101	\$103,261	\$143,561	\$83,996	\$260,258	\$76,756	\$427,826	\$221,811	\$529,663	\$43,057	\$93,132
Other Direct Costs	\$2,951,211	\$282,473	\$127,880	\$179,577	\$101,098	\$329,098	\$95,060	\$536,952	\$277,252	\$666,884	\$52,310	\$113,082
Depreciation												
- Collection Vehicles	\$3,019,471	\$290,312	\$130,338	\$187,578	\$111,875	\$335,995	\$94,287	\$544,769	\$284,647	\$667,188	\$55,161	\$120,503
- Containers	\$1,141,479	\$102,553	\$52,636	\$73,460	\$37,043	\$113,697	\$36,566	\$209,708	\$105,767	\$258,681	\$22,873	\$51,406
Total Depreciation	\$4,160,950	392,865	182,974	261,038	148,918	449,692	130,853	754,477	390,414	925,869	78,034	171,909
Allocated Indirect Costs												
General and Administrative	\$9,474,882	\$895,859	\$476,497	\$594,565	\$225,154	\$988,416	\$288,789	\$1,804,140	\$917,873	\$2,179,877	\$151,461	\$361,182
Operations	\$1,900,981	\$186,538	\$80,443	\$121,302	\$71,639	\$211,689	\$57,219	\$337,742	\$181,735	\$418,063	\$35,189	\$75,045
Vehicle Maintenance	\$3,633,226	\$356,517	\$153,745	\$231,836	\$136,920	\$404,589	\$109,360	\$645,506	\$347,338	\$799,016	\$67,255	\$143,429
Container Maintenance	\$1,349,505	\$129,625	\$65,445	\$89,147	\$34,335	\$148,898	\$40,573	\$247,130	\$126,208	\$309,619	\$22,162	\$50,303
Total Allocated Indirect Costs	\$16,358,593	\$1,568,540	\$776,130	\$1,036,850	\$468,048	\$1,753,592	\$495,942	\$3,034,518	\$1,573,154	\$3,706,574	\$276,067	\$629,959
Total Allocated Indirect Depreciation Costs	\$114,184	\$11,716	\$4,851	\$7,246	\$4,301	\$12,856	\$3,323	\$20,229	\$10,754	\$24,940	\$2,084	\$4,476
Annual Implementation Cost Amortization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Annual Cost of Operations	\$57,809,133	5,660,426	2,533,415	3,559,807	1,848,211	6,117,884	1,856,669	10,612,362	5,352,494	13,277,997	1,005,436	2,245,485
Profit	\$6,068,362	\$594,188	\$265,939	\$373,681	\$194,011	\$642,209	\$194,899	\$1,114,005	\$561,864	\$1,393,823	\$105,543	\$235,714
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%
Total Operating Cost	\$63,877,495	\$6,254,614	\$2,799,354	\$3,933,489	\$2,042,222	\$6,760,093	\$2,051,568	\$11,726,367	\$5,914,358	\$14,671,820	\$1,110,979	\$2,481,198
Contractor Pass-Through Costs												
Interest Expense	\$1,127,286	\$109,178	\$49,263	\$71,433	\$36,791	\$124,283	\$35,721	\$205,038	\$106,275	\$252,182	\$19,870	\$43,574
Contract Changes to Specific Agencies	\$91,992	\$9,007	\$4,031	\$5,665	\$2,941	\$9,735	\$2,955	\$16,887	\$8,517	\$21,129	\$1,600	\$3,573
BASE CONTRACTOR'S COMPENSATION	\$65,096,773	\$6,372,799	\$2,852,648	\$4,010,587	\$2,081,953	\$6,894,111	\$2,090,243	\$11,948,292	\$6,029,150	\$14,945,131	\$1,132,448	\$2,528,346
Incentives and Disincentives	\$49,971	\$7,156	\$3,348	\$2,968	\$802	\$4,486	\$1,758	\$10,712	\$3,428	\$11,699	\$422	\$1,071
Total Contractor Adjustments	\$49,971	\$7,156	\$3,348	\$2,968	\$802	\$4,486	\$1,758	\$10,712	\$3,428	\$11,699	\$422	\$1,071
TOTAL CONTRACTOR'S COMPENSATION	\$65,146,744	\$6,379,955	\$2,855,996	\$4,013,555	\$2,082,755	\$6,898,597	\$2,092,001	\$11,959,005	\$6,032,578	\$14,956,830	\$1,132,870	\$2,529,417
Prior Year's Surplus/Shortfall to/from Recology												
Revenue Reconciliation 2020 (Surplus)/Shortfall	(\$2,808,079)	\$0	(\$79,221)	(\$365,083)	(\$276,148)	\$84,890	(\$414,481)	(\$1,047,452)	(\$738,906)	\$308,256	(\$211,130)	(\$68,804)
Interest on 2020 (Surplus)/Shortfall	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sub-Total	(\$2,808,079)	\$0	(\$79,221)	(\$365,083)	(\$276,148)	\$84,890	(\$414,481)	(\$1,047,452)	(\$738,906)	\$308,256	(\$211,130)	(\$68,804)
TOTAL BALANCE TO CONTRACTOR 2022	\$62,338,665	\$6,379,955	\$2,776,775	\$3,648,472	\$1,806,607	\$6,983,487	\$1,677,520	\$10,911,553	\$5,293,672	\$15,265,086	\$921,740	\$2,460,613

SECTION 4 2022 MEMBER AGENCY REVENUE REQUIREMENT OBLIGATIONS

4.A Components of Member Agency Revenue Requirement

The compensation to Recology for 2022 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 2022 tip fees at the Shoreway Environmental Center. Tonnage assumptions were provided to Member Agencies on July 23 for review.
2. Franchise fee – Franchise and other Member Agency fees and programs. Fee assumptions used for 2022 were provided by Member Agencies on July 23.

4.C Cost Variance from 2021 to 2022

The variance in Total Revenue Requirement from 2021 to 2022 is shown in **Table 7** by cost category and the rate impact of each change. Note that **Table 7** Below includes The City of Belmont’s calculation for ease of reconciling. Once The City of Belmont’s actual 2022 compensation is available subsequent reports and all tables within will be updated.

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

COLLECTION RATE VARIANCE ANALYSIS <small>estimated 8/10/2021</small>	SBWMA TOTAL				
	2022 Variance				
	2021 Estimated	2022 Estimated	2022 vs. 2021 Change	2022 vs. 2021 %	% Rate Impact
Estimated Revenue (Before Rate Increase)		\$109,802,050			
Projected Collection Revenue (After Rate Increase)	\$109,681,362				
2021 Base Revenue Surplus / <Shortfall>			(\$3,095,088)		2.8%
Total Contractor’s Compensation					
Base Compensation	\$63,899,249	\$65,004,781	\$1,105,532	1.7%	1.0%
Agency Specific Contract Changes	\$0	\$91,992	\$91,992	0.0%	0.1%
Incentives / Disincentives	\$150,830	\$49,971	(\$100,859)	-66.9%	-0.1%
Total Contractor’s Compensation	\$64,050,079	\$65,146,744	\$1,096,665	1.7%	1.0%
Other Pass-Through Costs					
Disposal & Processing Fees	\$33,119,301	\$33,748,769	\$629,468	1.9%	0.6%
Agency Franchise & Other Fees	\$15,727,758	\$16,057,912	\$330,154	2.1%	0.3%
Subtotal Other Pass-Through Costs	\$48,847,059	\$49,806,681	\$959,622	2.0%	0.9%
TOTAL REVENUE REQUIREMENT	\$112,897,138	\$114,953,425	\$2,056,287	1.8%	1.9%
2021 Estimated Surplus / <Shortfall>	(\$3,215,776)				
2022 Estimated Surplus / <Shortfall>		(\$5,151,373)			
Required Revenue Adjustment		4.7%			4.7%
<small>All numbers above are current estimates except 2020 Contractor’s (Recology) Compensation which is final and 2021 Contractor’s Compensation which is subject to Board Approval.</small>					

4.D Total Recommended Rate Adjustment

The SBWMA is responsible for compiling all the components that make up the recommended rate adjustment for 2022 and are summarized in **Table 8**. The amounts shown in Table 8 reflect estimated balances at December 31, 2022 before any 2022 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 2022. The Total Rate Adjustment Percentage (line **F.3**) is derived from comparing the 2022 base revenue at 2021 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**. The City of Belmont's compensation to Recology is excluded from **Table 8**. Once The City of Belmont's actual 2022 compensation is available this **Final** Report and all tables within will be updated.

- **Section A** – This section provides the estimated 2022 Collection Revenue using 2021 rates (**A.1**), the 2022 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2022 Revenue Requirement (**A.7**), the estimated 2022 Surplus/Shortfall balance with Recology (**A.8**), Agency Fees on shortfalls (**A.9**), and the Rate Adjustment Percentage (**A.10**).
- **Section B** – This section provides the results of the 2020 Recology Revenue Reconciliation surplus/shortfall, including 2018 close out, that must be added to the 2022 rate adjustment.
- **Section C** – This section provides the 2022 Calculated Rate Adjustment which is the sum of sections A and B.
- **Section D** – This section provides the “2021 Estimated Surplus/Shortfall” balance with Recology (**D.1**), the final 2019 surplus/shortfall (**D.2**) and the associated Agency Fees on any net estimated shortfall (**D.4**).
- **Section E** – This section includes Member Agency Specific adjustments with Recology.
- **Section F** – This section provides the “Cumulative Revenue Requirement” (**F.1**) and the cumulative surplus (**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.**

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

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
<i>as of 09/23/2021</i>							
2022 Rate Year							
	Belmont *	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park	
A. 2022 RATE YEAR							
A.1	2022 Collection Revenue @ 2021 Rates	\$7,403,489	\$11,070,046	\$5,389,157	\$6,316,861	\$3,408,650	\$11,820,629
A.2	Total Recology Compensation	\$4,105,136	\$6,379,955	\$2,855,996	\$4,013,555	\$2,082,755	\$6,898,597
A.3	Pass-Through Costs						
A.4	Disposal & Processing Fees	\$1,732,663	\$3,244,890	\$2,174,161	\$2,175,471	\$1,193,349	\$3,652,711
A.5	Agency Franchise Fees	\$2,051,120	\$1,844,348	\$649,504	\$401,290	\$312,992	\$1,974,727
A.6	Total Pass-Through Costs	\$3,783,783	\$5,089,239	\$2,823,666	\$2,576,761	\$1,506,341	\$5,627,438
A.7	2022 Revenue Requirement	\$7,888,919	\$11,469,194	\$5,679,661	\$6,590,315	\$3,589,096	\$12,526,034
A.8	2022 Surplus/(Shortfall) estimated	(\$485,430)	(\$399,149)	(\$290,504)	(\$273,454)	(\$180,446)	(\$705,405)
A.9	Agency Fees on A.8 Shortfall		(\$55,881)	(\$27,737)	(\$13,673)	(\$18,045)	(\$95,935)
A.10	Rate Adjustment Percentage (Associated with 2022 estimated Surplus/Shortfall)		4.1%	5.9%	4.5%	5.8%	6.8%
B. 2020 Final Surplus/(Shortfall)							
B.1	Surplus/(Shortfall) 2020 FINAL (incl. Interest)			\$79,221	\$365,083	\$276,148	(\$84,890)
B.2	Agency Fees on B.1 Shortfall						(\$11,545)
B.3	Rate Adjustment Percentage (Associated with 2020 Final Surplus/Shortfall)			-1.5%	-5.8%	-8.1%	0.8%
C. 2022 REQUIRED REVENUE ADJUSTMENT							
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$7,888,919	\$11,525,075	\$5,628,177	\$6,238,905	\$3,330,993	\$12,718,405
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	(\$485,430)	(\$455,029)	(\$239,020)	\$77,956	\$77,658	(\$897,776)
C.3	Rate Adjustment Percentage (C.2 / A.1)		4.1%	4.4%	-1.2%	-2.3%	7.6%
D. 2021 Estimated Surplus/(Shortfall)							
D.1	Surplus/(Shortfall), 2021 estimated		(\$388,011)	(\$177,138)	(\$180,502)	(\$122,155)	(\$631,433)
D.2	Surplus/(Shortfall) 2019 FINAL (incl. Interest)			\$57,124	\$148,378	\$307,175	\$309,418
D.3	Net Estimated 2021 Surplus/Shortfall		(\$388,011)	(\$120,014)	(\$32,124)	\$185,020	(\$322,015)
D.4	Agency Fees on D.3 Estimated Shortfall		(\$54,322)	(\$11,459)	(\$1,606)		(\$43,794)
D.5	Rate Adjustment Percentage (Associated with 2021 Estimated Surplus/Shortfall)		4.0%	2.4%	0.5%	-5.4%	3.1%
E. Adjustments							
E.1	Miscellaneous Adjustment/Payment						
F. TOTAL RATE IMPACT							
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$7,888,919	\$11,967,408	\$5,759,650	\$6,272,635	\$3,145,972	\$13,084,214
F.2	Total Surplus/(Shortfall) (A.1 - F.1)	(\$485,430)	(\$897,362)	(\$370,494)	\$44,226	\$262,678	(\$1,263,585)
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	6.6%	8.1%	6.9%	-0.7%	-7.7%	10.7%
* The City of Belmont's 2021 Revenue Requirement used here as a placeholder since 2022 revenue requirement has yet to be determined							

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

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
as of 09/23/2021		2022 Rate Year					
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total	
A. 2022 RATE YEAR							
A.1	2022 Collection Revenue @ 2021 Rates	\$3,218,707	\$21,249,087	\$9,529,785	\$24,833,973	\$1,837,488	\$3,615,765
A.2	Total Recology Compensation	\$2,092,001	\$11,959,005	\$6,032,578	\$14,956,830	\$1,132,870	\$2,529,417
A.3	Pass-Through Costs						
A.4	Disposal & Processing Fees	\$1,083,838	\$6,527,126	\$2,626,054	\$7,612,755	\$538,744	\$1,105,885
A.5	Agency Franchise Fees	\$154,632	\$3,042,005	\$1,298,538	\$4,122,801	\$105,261	\$174,158
A.6	Total Pass-Through Costs	\$1,238,469	\$9,569,131	\$3,924,592	\$11,735,555	\$644,005	\$1,280,044
A.7	2022 Revenue Requirement	\$3,330,471	\$21,528,136	\$9,957,170	\$26,692,385	\$1,776,876	\$3,809,460
A.8	2022 Surplus/(Shortfall) estimated	(\$111,763)	(\$279,049)	(\$427,385)	(\$1,858,412)	\$60,612	(\$193,695)
A.9	Agency Fees on A.8 Shortfall	(\$5,588)	(\$38,090)	(\$51,286)	(\$74,336)		(\$9,685)
A.10	Rate Adjustment Percentage (Associated with 2018 estimated Surplus/Shortfall)	3.6%	1.5%	5.0%	7.8%	-3.3%	5.6%
B. 2020 Final Surplus/(Shortfall)							
B.1	Surplus/(Shortfall) 2020 FINAL (incl. Interest)	\$414,481	\$1,047,452	\$738,906	(\$308,256)	\$211,130	\$68,804
B.2	Agency Fees on B.1 Shortfall				(\$12,330)		
B.3	Rate Adjustment Percentage (Associated with 2020 Final Surplus/Shortfall)	-12.9%	-4.9%	-7.8%	1.3%	-11.5%	-1.9%
C. 2022 REQUIRED REVENUE ADJUSTMENT							
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$2,921,578	\$20,518,774	\$9,269,550	\$27,087,308	\$1,565,746	\$3,750,341
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	\$297,130	\$730,313	\$260,235	(\$2,253,335)	\$271,742	(\$134,576)
C.3	Rate Adjustment Percentage (C.2 / A.1)	-9.2%	-3.4%	-2.7%	9.1%	-14.8%	3.7%
D. 2021 Estimated Surplus/(Shortfall)							
D.1	Surplus/(Shortfall), 2021 estimated	\$10,939	\$142,406	(\$369,943)	(\$1,158,458)	\$96,749	(\$87,721)
D.2	Surplus/(Shortfall) 2019 FINAL (incl. Interest)	\$186,576	\$117,943	\$163,382	\$1,382,278	\$136,383	\$421,171
D.3	Net Estimated 2021 Surplus/Shortfall	\$197,515	\$260,349	(\$206,561)	\$223,820	\$233,132	\$333,450
D.4	Agency Fees on D.3 Estimated Shortfall			(\$24,787)			
D.5	Rate Adjustment Percentage (Associated with 2021 Estimated Surplus/Shortfall)	-6.1%	-1.2%	2.4%	-0.9%	-12.7%	-9.2%
E. Adjustments							
E.1	Miscellaneous Adjustment/Payment						
F. TOTAL RATE IMPACT							
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$2,724,063	\$20,258,425	\$9,500,899	\$26,863,488	\$1,332,613	\$3,416,892
F.2	Total Surplus/(Shortfall) (A1 - F1)	\$494,644	\$990,662	\$28,886	(\$2,029,515)	\$504,874	\$198,874
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-15.4%	-4.7%	-0.3%	8.2%	-27.5%	-5.5%

SECTION 5 CONCLUSION

The SBWMA’s review of the 2022 Recology Compensation Application results in the recommendation to increase the 2022 compensation to Recology (i.e., Total Contractor’s Compensation) by 1.7% from the approved 2021 compensation, as provided in **Tables 2, 3, 5, 6,7 and 8** of this **Final** Report, and Tables A, B and E in Recology’s Application.

The Member Agency detail report can be found in the Recology Application – Section 4, Attachment N: Cost Adjustment Calculations in Total and by Member Agency.

STAFF REPORT

To: SBWMA Board Members
From: Joe La Mariana, Executive Director
Tj Carter Program Manager II, Recycling and Compliance
Date: September 30, 2021 Board of Directors Meeting
Subject: Resolution Authorizing SBWMA Staff to Solicit Proposals for SB 1383-mandated, Non-Franchised Services

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No 2021-29-attached hereto authorizing staff to issue a request for proposal (RFP) to solicit proposals from potential service providers for Senate Bill 1383 contamination monitoring, outreach, and waiver management services that are required for compliance and may not be available through Recology San Mateo County.

Summary

The purpose of this report is to update the Board of Directors on the status of negotiations with Recology San Mateo County (Recology) related to a potential Senate Bill (SB) 1383 franchise agreement amendment two and to recommend an alternative approach to securing the services needed by SBWMA's Member Agencies related to compliance with SB 1383.

In May 2021, staff and Recology initiated negotiations of a franchise agreement amendment two to expand Recology's scope to provide some SB 1383-related services. The parties have reached substantial agreement on the scope and approach to providing certain services that are required by the Member Agencies to achieve compliance with SB 1383. However, the cost and compensation terms are still unresolved. The level of cost proposed and the approach to compensation requested by Recology results in substantially greater impact to ratepayers than staff and consultants believe are necessary and appropriate, given the scope. These services (contamination monitoring, outreach, waiver management) are not exclusive franchise scope rights held by Recology. There are other contractors that provide these services and other similar JPAs that utilize such third parties rather than their franchise haulers for these same functions.

Staff recommends issuance of an RFP to solicit proposals from third-party contractors to provide the contamination monitoring, outreach, and waiver management services to assess alternative approaches and potential costs relative to Recology's proposed approach. Staff remains committed to continued negotiations with Recology in parallel to the RFP process so that the impact to ratepayers, Member Agencies, and SBWMA under each approach can be compared prior to making a final determination.

Analysis

SB 1383 includes several requirements that the franchise agreements between the Member Agencies and Recology already satisfy, including: collection service, education, recordkeeping, and reporting. The most significant portion of SB 1383 is the requirement to provide a compliant collection program to generators, which includes organic materials collection. The Member Agency franchise agreements already meet this requirement

by requiring Recology to provide recycling, organics, and solid waste service to any generator that requests those services. To be fully compliant with SB 1383, the Member Agencies also need to secure services to:

1. Perform outreach to the remaining businesses and multi-family properties that have not yet subscribed to recycling and/or organics services in order to arrange for these properties to subscribe to the service, to determine needed service levels, and to support those generators with compliance;
2. Assist Member Agencies in the review of potential service waivers that can be granted to multi-family and commercial generators under SB 1383;
3. Conduct annual monitoring of contamination in each Member Agency and on each route through inspections of materials in generators' containers;
4. Educate customers about any contamination identified during the contamination monitoring study; and,
5. Prepare the annual contamination monitoring report to CalRecycle on behalf of each Member Agency.

SBWMA and Recology staff have met several times to negotiate the scope and compensation terms of a potential amendment two to the Member Agency franchise agreements to implement these additional programs that are required by SB 1383. At the time of this report, the parties have reached substantial agreement on the scope and many of the terms of the amendment. The compensation terms are unresolved and Recology has rejected proposals that SBWMA staff and consultants believed were very reasonable. The counter proposal offered by Recology was to reset their profitability on the Member Agency franchise agreements, which would result in substantial additional impact to the ratepayers beyond the incremental cost impacts of the services estimated be required for SB 1383 as estimated by staff and its consultant. Staff and consultants believe this is an unreasonable burden for ratepayers and results in a significant windfall to Recology.

The services listed in items 1-5 above could be provided by Recology through the franchise amendment, as originally planned, or they could be provided by a third party(ies), as is done in other large cities and similar JPAs. For example, the Monterey Regional Waste Management District, San Luis Obispo Integrated Waste Management Authority, and Central Contra Costa Solid Waste Authority provide these services through third-party contractors and intend to continue to do so for SB 1383.

The services listed in items 1-5 above do not need to be in place on January 1, 2022 for compliance. The outreach to businesses and waiver monitoring tasks (items 1 and 2) can be performed throughout the year and are supportive of the existing programs that are provided by each Member Agency, so compliance should be met by a combination of the existing provisions and outreach performed during the calendar year to non-compliant entities. Contamination monitoring (items 3, 4, and 5) is an annual requirement that can be satisfied during the calendar year, and there should be adequate time to complete these activities as long as the third-party contractor is in place by April 2022.

Due to the lack of agreement with Recology on costs and compensation terms at this time, combined with the need to ensure compliance with the SB 1383 requirements during calendar year 2022, staff believes it would be prudent to issue one or more RFPs to determine whether the services could be provided more cost-effectively through another contractor. Staff intends to continue negotiations with Recology on a parallel track, assuming Recology remains interested in providing some or all of the requested services. The results of the RFP process and negotiations with Recology will be considered by staff and a recommendation will be presented to the TAC and Board in December 2021 or January 2022.

Background

In September 2016, SB 1383 (Lara, Chapter 395, Statutes of 2016) established statewide methane emissions reduction targets in an effort to reduce emissions of short-lived climate pollutants in various sectors of California's economy. It includes statewide goals to reduce the disposal of organic waste and recover edible food for human consumption. To accomplish these statewide goals, SB 1383 regulations, which were approved on November 3rd, 2020, include prescriptive requirements for jurisdictions related to recycling and organics collection, inspection, and enforcement policies and programs and edible food recovery. The SBWMA and its Member Agencies need to comply with nearly all SB 1383 requirements by January 1, 2022 with the significant exception that enforcement actions do not need to commence until January 1, 2024. More information regarding SB 1383 can be found online at www.calrecycle.ca.gov/organics/slcp/.

In November 2020, the SBWMA Board of Directors adopted the SB 1383 Compliance Plan outlining the roles and responsibilities delegated to the SBWMA by its Member Agencies including leading outreach and education, procurement requirement support, reporting and recordkeeping, organics waste processing capacity and diversion planning, developing model tools, and establishing processes for complaints and waivers.

In May 2021, SBWMA and Recology initiated negotiations to determine scope and costs of additional services needed for compliance with SB 1383. A staff report was provided to the SBWMA Board of Directors on July 22, 2021 with an overview of items being negotiated, as part of the potential Franchise Agreement Amendment Two with Recology, for Scope of Service Modifications to integrate franchise-related SB 1383 compliance requirements. SBWMA and Recology have met numerous times to discuss the scope and costs between May 2021 and September 2021.

Fiscal Impact

There is no additional, direct cost to the SBWMA, member agencies, or ratepayers related to issuing the recommended RFP or continuing negotiations with Recology. The fiscal impact of the final recommended contract(s) for these services will be presented at the time the Board is asked to consider those contract(s) (currently anticipated at the November Board meeting)

Attachments:

Resolution 2021-29



RESOLUTION NO. 2021-29

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS AUTHORIZING SBWMA STAFF TO SOLICIT PROPOSALS FOR SB 1383-MANDATED, NON-FRANCHISED SERVICES

WHEREAS, the State of California passed Senate Bill (SB) 1383 (Chapter 395, Statutes of 1383), which required the California Department of Resources Recycling and Recovery (CalRecycle) to adopt regulations to reduce organic waste by 50 percent from its 2014 baseline level by 2020 and 75 percent by 2025; and

WHEREAS, CalRecycle has finalized regulations and revised Chapter 12 (Short-lived Climate Pollutants) of Division 7 of Title 14 of the California Code of Regulations (“SB 1383 Regulations”); and

WHEREAS, the SB 1383 Regulations require local agencies or jurisdictions, among other things, to implement programs requiring organic waste generators and waste haulers to meet minimum standards for organic waste collection services, inspect waste containers for prohibited contamination of materials, provide education and outreach information to organic waste generators, report to CalRecycle on compliance with SB 1383 Regulations, and maintain records of compliance with SB 1383 Regulations; and

WHEREAS, Additional services needed for SB 1383 compliance including contamination monitoring, outreach, waiver management are not exclusive franchise scope rights held by Recology San Mateo County; and

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby authorizing staff to issue a request for proposal (RFP) to solicit proposals from potential service providers for SB 1383 contamination monitoring, outreach, and waiver management services that are required for compliance and may not be available through Recology San Mateo County.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 30th day of September, 2021, by the following vote:

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

I HEREBY CERTIFY that the foregoing Resolution No. 2021-29 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on September 30, 2021.

ATTEST:

Alicia Aguirre, Chairperson of SBWMA

Cyndi Urman, Clerk of the Board