

CONTRACTOR ANNUAL COMPENSATION ADJUSTMENT PROCESS



Recology San Mateo County



A Public Agency



South Bay Recycling

Overview

- **Overview of Annual Contractor Compensation Adjustment Process**
 - **Schedule**
 - **Recology Compensation Summary**
 - **Total Collection Revenue Requirement Including Shoreway**
 - **Contractor Annual Cost Adjustment Process**
 - **Cost Allocation Process**
 - **Total Revenue Requirement (includes Member Agency specific adjustments plus other pass through costs)**
 - **Revenue Reconciliation**

Schedule

<u>Due Date</u>	<u>Milestone</u>
June 14, 2013	Recology 2014 Compensation Application Submitted to Member Agencies and SBWMA
July 8, 2013	Comments and Questions from SBWMA and Member Agencies due to Recology
August 16, 2013	SBWMA Draft Report Issued to Member Agencies
August 30, 2013	Member Agencies Written Comments Due to SBWMA
September 12, 2013	SBWMA Special Board Meeting: Presentation by Staff and Discussion
September 19, 2013	SBWMA Issues Final Report to Board
September 26, 2013	SBWMA Board Meeting: Consideration of Final Report

Recology Compensation Summary

RECOLOGY COMPENSATION SUMMARY	2013	2014	2013 vs. 2014		
	Costs	Costs	% of Total Cost	\$ Change	% Change
Total Annual Cost of Operations	49,365,638	49,998,504	86.8%	632,865	1.3%
Profit	5,182,028	5,248,462	9.1%	66,433	1.3%
Operating Ratio	90.5%	90.5%			
Total Operating Costs	54,547,667	55,246,965	96.0%	699,299	1.3%
Contractor Pass-Through Costs					
Interest Expense	2,498,648	2,224,726	3.9%	(273,922)	-11.0%
Interest Expense on Implementation Cost	82,589	73,498	0.1%	(9,091)	-11.0%
Contract Changes to Hillsborough	(406,737)	(416,446)	-0.7%	(9,709)	2.4%
Total Contractor Pass-Through Costs	2,174,500	1,881,778	3.3%	(292,722)	-13.5%
BASE CONTRACTOR'S COMPENSATION	56,722,167	57,128,743	99.2%	406,577	0.7%

Total Collection Revenue Requirement Including Shoreway

SBWMA SERVICE AREA - TOTAL REVENUE REQUIREMENT INCLUDING SHOREWAY - 2014 (estimate)						
SBWMA Agreement with South Bay Recycling to Operate the Shoreway Facility & SBWMA Board of Directors Setting of Tipping Fees for the Shoreway Facility	SHOREWAY TIPPING FEES					
	<i>Figures below are for Franchise tonnage only, excludes Public customer volumes</i>					
	SBR Operating Cost	+	Other Operating Costs	-	Commodity Revenue Net	= Revenue Requirement (franchise)
	\$14 million (54%)	+	\$20 million (76%)	-	\$8 million (-30%)	= \$26 million (100%)
		↑			↓	
		* Disposal (Ox Mtn.) & processing costs * SBWMA program exp. * Debt service payments * Franchise fees paid to City of San Carlos			Tip Fees set to meet: 1) Revenue requirement; 2) Bond covenant requirements; and, 3) Reserve fund levels per Board policy	
Member Agency Individual Franchise Agreements with Recology for Collection Services	COLLECTION COST & RATES					
	Recology Operating Cost	+	Disposal at Shoreway	+	Agency Fees	= Revenue Requirement to RSMC
	\$58 million (59%)	+	\$26 million (26%)	+	\$14 million (14%)	= \$98 million (100%)
			↑			↓
		Disposal: Estimated tons x Shoreway Tip Fee			Customer Rates set by each Agency to Meet Revenue Requirement	
<i>Note: Simplified - for illustration only.</i>						

Contractor Annual Cost Adjustment Process

SBWMA - CONTRACTOR ANNUAL COST ADJUSTMENT PROCESS		
Collection Contracts		
2013 APPROVED COSTS (not actual costs)	ADJUSTMENT	2014 CONTRACTOR COMPENSATION
CBA (wages & benefits)	+ Index adjustment beginning Rate Year 2014	= Base plus Adjustment
Other Cost	+ Index	= Base plus Adjustment
Fuel	+ Index	= Base plus Adjustment
Depreciation	+ No Change	= Last Year's Depreciation
Allowable Profit		Profit calculated on total approved costs at Operating ratio in Proposal
Contractor Pass-Through Cost		
Interest	Interest is fixed on sliding scale based on final capital cost	Annual Interest Expense per Interest Schedule
Other	Actual cost; i.e., regulatory fees, etc.	Actual Cost
2013 TOTAL BASE CONTRACTOR COMPENSATION	+ Total of all Costs Above	= 2014 TOTAL BASE CONTRACTOR COMPENSATION

Note: Simplified - for illustration only.

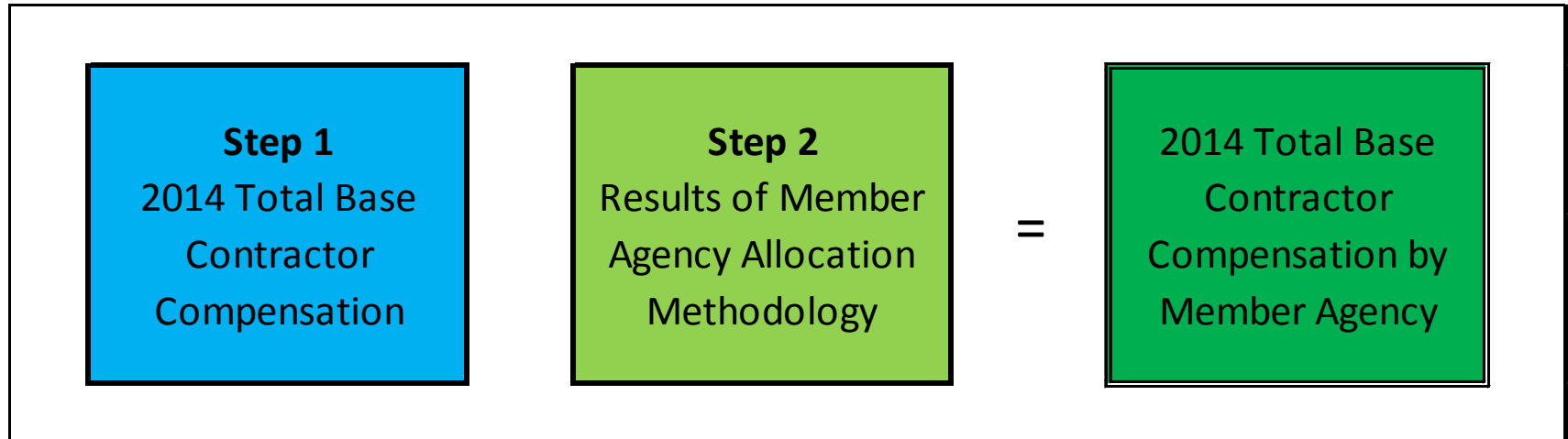
Contractor Annual Cost Adjustment Process

Index Adjustments to Cost Categories	
<u>Cost Category</u>	<u>Index Cost Adjustment for 2014</u>
CBA & non-CBA Wages & Benefits	1.93%
Worker's Compensation insurance	1.96%
Fuel	-0.75%
Other Operating Expense (80% of Index)	1.35%

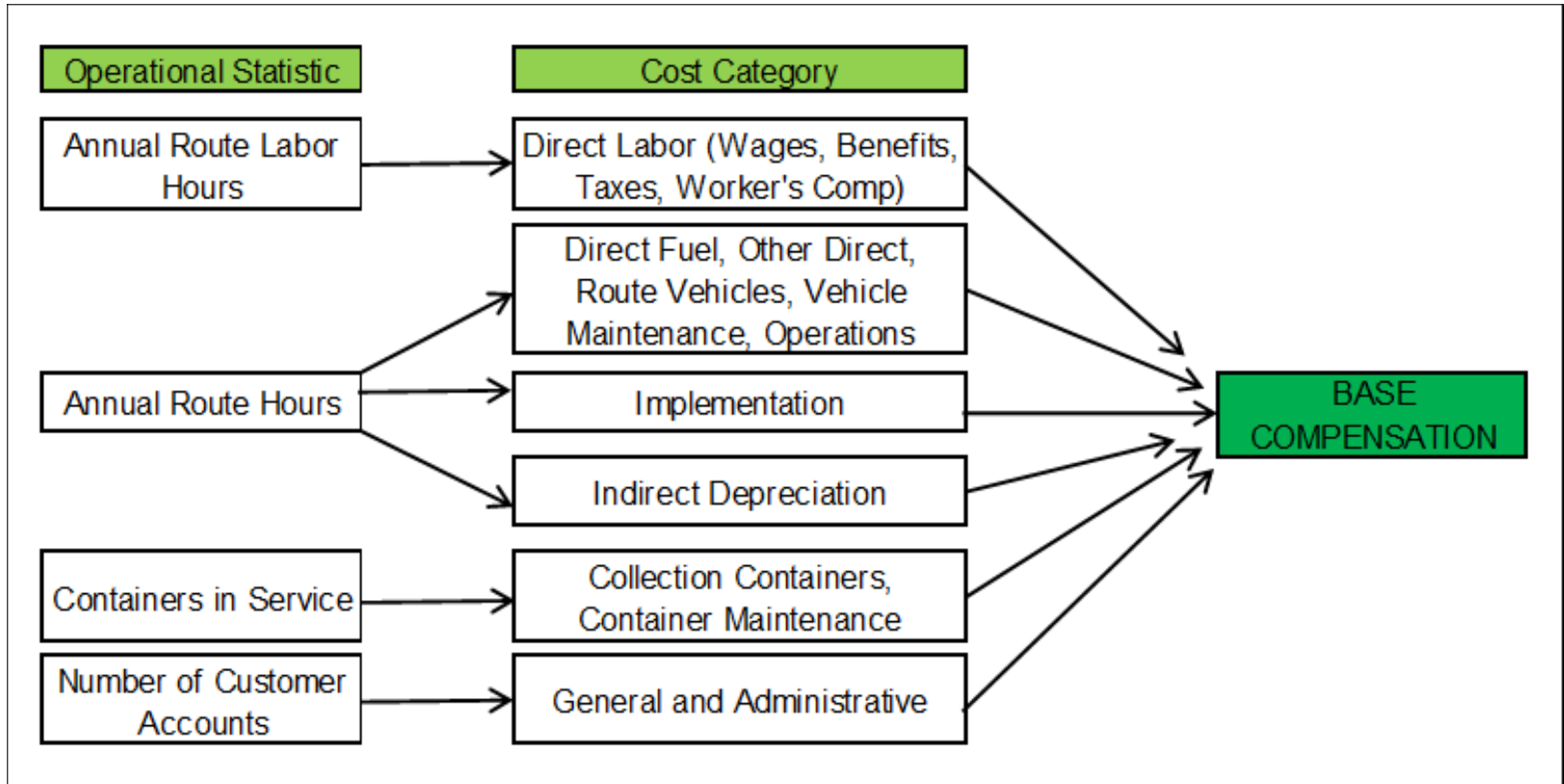
2014 Contractor Base Compensation Adjustment

RECOLOGY COMPENSATION DETAIL		2013	2014	2013 vs. 2014		
		Costs	Costs	% of Total Cost	\$ Change	% Change
Annual Cost of Operations						
	Total Direct Labor Costs	24,339,540	24,776,127	43.0%	436,588	1.8%
	Direct Fuel Costs	4,249,910	4,218,052	7.3%	(31,859)	-0.7%
	Other Direct Costs	2,097,376	2,125,690	3.7%	28,315	1.4%
	Total Depreciation	5,899,342	5,899,342	10.2%	-	0.0%
	Indirect Costs	12,439,844	12,639,666	22.0%	199,822	1.6%
	Indirect Depreciation	152,451	152,451	0.3%	-	0.0%
	Implementation Cost Amortization	187,175	187,175	0.3%	-	0.0%
Total Annual Cost of Operations		49,365,638	49,998,504	86.8%	632,865	1.3%
Profit		5,182,028	5,248,462	9.1%	66,433	1.3%
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Cost Allocation Process



Cost Allocation Methodology



Results of Cost Allocation Process

Member Agency	2013	2013	2014	2014	Comparison of 2013 vs. 2014 Cost Allocation ¹		
	Cost Allocation	Allocation %	Cost Allocation	Allocation %	Allocation % Change	Cost Change \$	Cost Change %
Atherton	\$ 1,398,175	2.46%	\$ 1,493,330	2.61%	0.149%	\$95,155	6.8%
Belmont	\$ 3,673,265	6.48%	\$ 3,641,345	6.37%	-0.102%	-\$31,920	-0.9%
Burlingame	\$ 5,554,239	9.79%	\$ 5,642,840	9.88%	0.085%	\$88,602	1.6%
East Palo Alto	\$ 2,316,529	4.08%	\$ 2,352,562	4.12%	0.034%	\$36,033	1.6%
Foster City	\$ 3,438,581	6.06%	\$ 3,610,222	6.32%	0.257%	\$171,640	5.0%
Hillsborough	\$ 1,941,523	3.42%	\$ 1,986,827	3.48%	0.055%	\$45,304	2.3%
Menlo Park	\$ 5,778,329	10.19%	\$ 5,757,025	10.08%	-0.110%	-\$21,304	-0.4%
North Fair Oaks	\$ 1,676,530	2.96%	\$ 1,684,143	2.95%	-0.008%	\$7,613	0.5%
Redwood City	\$ 10,241,677	18.06%	\$10,163,353	17.79%	-0.266%	-\$78,324	-0.8%
San Carlos	\$ 5,218,114	9.20%	\$ 5,176,752	9.06%	-0.138%	-\$41,362	-0.8%
San Mateo	\$ 12,327,621	21.73%	\$12,457,969	21.81%	0.073%	\$130,348	1.1%
West Bay Sanitary	\$ 1,069,442	1.89%	\$ 984,382	1.72%	-0.162%	-\$85,060	-8.0%
County of San Mateo	\$ 2,088,143	3.68%	\$ 2,177,995	3.81%	0.131%	\$89,852	4.3%
Total Base Compensation	\$ 56,722,168	100%	\$ 57,128,743	100%	0.000%	\$406,578	0.7%

¹ Figures denoted as negative represent a reduction in the cost allocation for 2014 compared to 2013. Positive numbers represent an increase for 2014 compared to 2013.

Total Revenue Requirement

2014 Total Base
Contractor
Compensation by
Member Agency

+

Specific Member
Agency Adjustments
to Compensation

+

Other Pass-Through
Costs (e.g., Disposal,
Franchise Fees)

=

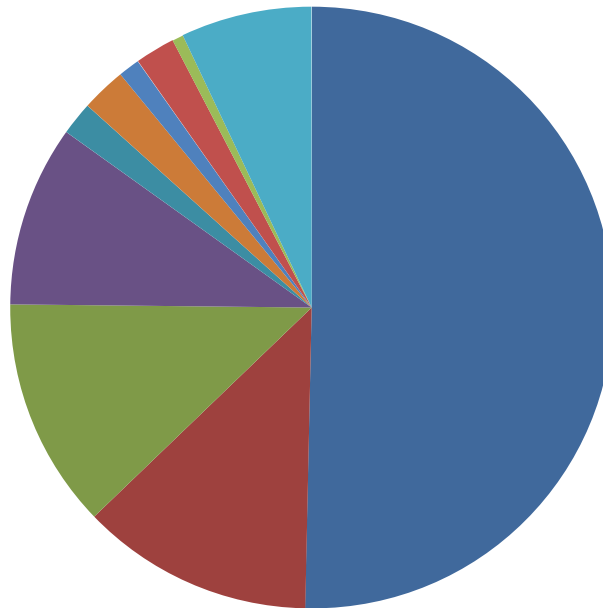
2014 Total Revenue
Requirement by
Member Agency

Total Revenue Requirement

REVENUE REQUIREMENT		2014
		Revenue & Costs
ESTIMATED REVENUE (Before Rate Adjustment)		\$98,908,205
BASE CONTRACTOR'S COMPENSATION		57,128,743
Other Adjustments		
Incentives/Disincentives		472,171
TOTAL CONTRACTOR'S COMPENSATION		\$ 57,600,914
Other Pass-Through Costs		
	Disposal & Processing Fees	\$26,495,949
	Agency Franchise & Other Fees	\$14,242,815
	Agency Specific Contract Changes	(\$14,886)
Subtotal Other Pass-Through Costs		\$40,723,879
TOTAL REVENUE REQUIREMENT		\$98,324,793
2014 Estimated Surplus / <Shortfall>		\$583,412

Total Revenue Requirement

SBWMA Total Collection Expense Detail - 2014 (estimate)

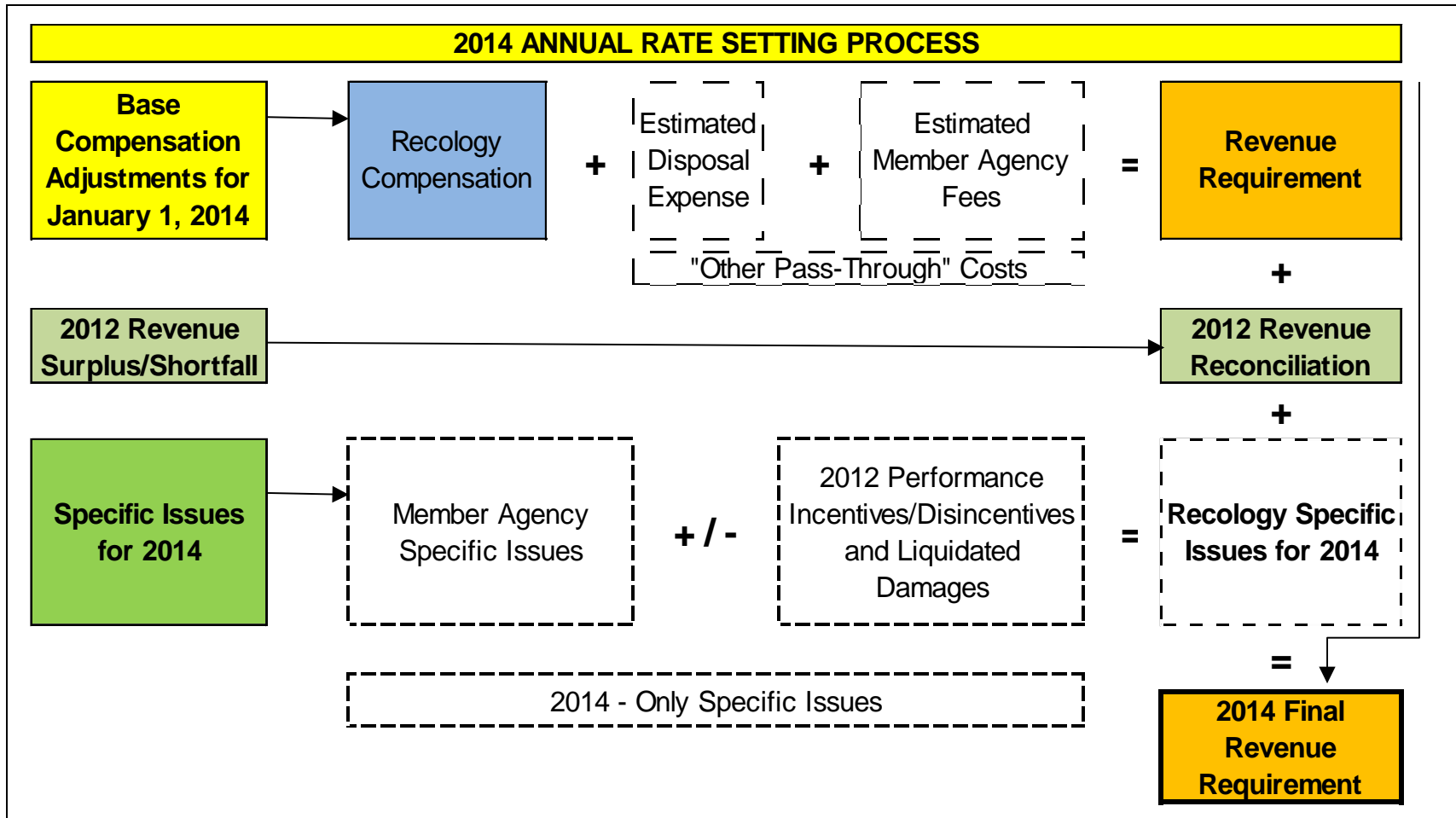


- \$ 57.6 Recology Collection Cost (59%)
- \$ 14.2 Member Agency Franchise Fees (14%)
- \$ 14.2 Shoreway - SBR Operating Cost (14%)
- \$ 11.1 Shoreway - Disposal & Processing Expense (11%)
- \$ 2.1 Shoreway - County Fees @ Ox Mtn (2%)
- \$ 2.7 Shoreway - Bond Interest Expense (3%)
- \$ 1.3 Shoreway - Fr. Fees to City of San Carlos (1%)
- \$ 2.4 SBWMA Program Expense (2.5%)
- \$ 0.7 Other Operating Cost (0.7%)
- \$106.3 TOTAL OPERATING COST (108%)
- \$ -8.0 Net Commodity Revenue (-8%)
- \$ 98.3 TOTAL COLLECTION EXPENSE

Revenue Reconciliation



Final Revenue Requirement



Revised Total Collection Rate Impact

- **List of Changes to Rate Tables (Appendix G) included in SBWMA Draft Report issued on August 16, 2013 and included in the September 19, 2013 SBWMA Final Report:**
 - All Member Agencies
 - 2011 surplus/shortfall and interest has been added
 - Revised Incentive/Disincentive payment per audit findings
 - Hillsborough – Reduction in 2014 revenue and agency fees, additional 2012 revenue for 2011, additional interest on 2012 surplus
 - Burlingame – Increase to Agency fees
 - Menlo Park – Increase to 2014 revenue projection and decrease to agency fees
 - County NFO – Corrections to 2013 revenue (Redwood City reclassification of accounts), 2014 revenue and 2013 collection cost
 - Redwood City – Correction to 2013 revenue (NFO reclassification of accounts)