

RECOLOGY COST ALLOCATION PROCESS



Recology San Mateo County

RECOLOGY COST ALLOCATION PROCESS

Summary of Presentation

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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%
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%

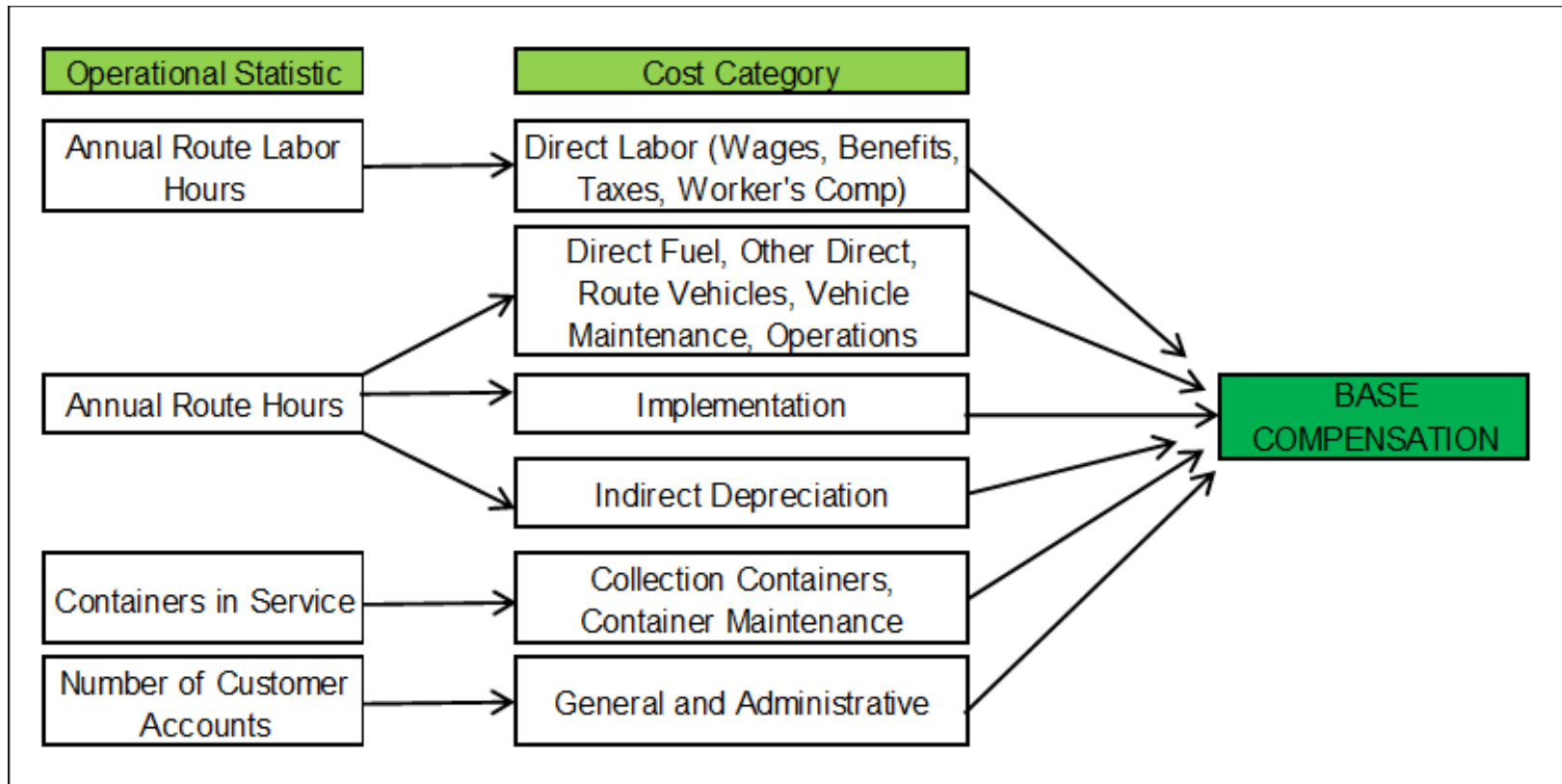
RATIONALE TO ALLOCATE RECOLOGY'S COST AMONG MEMBER AGENCIES

- One service provider, but separate Franchise Agreement(s) with each Member Agency.
- Achieves economy of scale cost savings and efficiencies resulting in lower cost.
- Each Member Agency has unique operational characteristics - topography, housing density, number and type of businesses, traffic patterns, customer subscription levels, etc.
- Operational effort and hence cost to provide service is not uniform across Member Agencies.
- **Equitable distribution of costs is needed to ensure fairness across SBWMA service area.**

EXPLANATION OF RECOLOGY COST ALLOCATION

- Similar services provided, but service profile of each Member Agency is different.
- Common denominators are operational metrics:
 1. Annual route labor hours
 2. Annual route hours
 3. Number of containers in service
 4. Number of customer accounts serviced
- Statistics compiled over same 4 week period annually.
- Each statistic applied to the cost categories for each line of business.
- Similar approach used historically with BFI/Allied/Republic.

COST ALLOCATION METHODOLOGY: APPLYING OPERATING STATISTICS TO COSTS



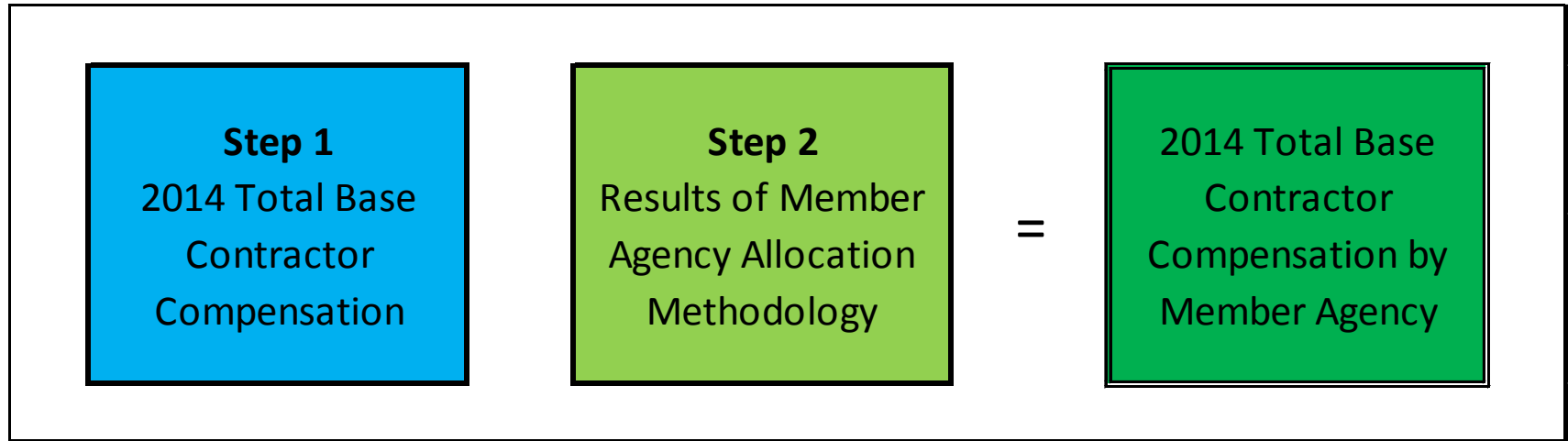
EXAMPLE OF APPLYING SHARE OF OPERATING STATISTICS TO COSTS FOR ONE LINE OF BUSINESS – SFD GARBAGE

Example of Cost Allocation Calculation - 2014			
City of Menlo Park Allocated Cost for SFD, Solid Waste Line of Business			
			Statistics
1	# of Accounts - City		7,816
	# of Accounts - Total \$ BWMA		93,874
	% of Accounts - City		8.3%
2	Total Route Labor hours year - City		3,880
	Total Route Labor hours year - Total \$ BWMA		48,266
	% Total Route Labor hours year - City		8.0%
3	# of route hours/year - City		3,594
	# of route hours/year - Total \$ BWMA		44,057
	% Total Route Labor hours year - City		8.2%
4	Total Containers in Service - City		8,243
	Total Containers in Service - Total \$ BWMA		96,151
	% Total Containers in Service - City		8.6%
		a	b
			c
		Line of Business	
		Solid Waste	Solid Waste
		SBWMA Total	% to MP
			MP Cost Allocation
			(a x b)
Service Sector: SFD			
Annual Cost of Operations			
	Direct Labor-Related Costs		
	Wages for CBAs	\$3,165,552	8.0%
	Benefits for CBAs	\$1,252,546	8.0%
	Payroll Taxes	\$263,374	8.0%
	Workers Compensation Insurance	\$278,820	8.0%
	Total Direct Labor Related-Costs	\$4,960,292	
	Direct Fuel Costs	\$825,516	8.2%
	Other Direct Costs	\$395,838	8.2%
	Depreciation - Collection Vehicles	\$809,031	8.2%
	Depreciation - Containers	\$428,963	8.6%
	Depreciation for Collection Equipment	\$1,231,994	
	Allocated Indirect Costs		
	General and Administrative	\$1,302,461	8.3%
	Operations	\$322,771	8.2%
	Vehicle Maintenance	\$553,656	8.2%
	Container Maintenance	\$191,948	8.6%
	Total Allocated Indirect Costs	\$2,370,836	
	Total Allocated Indirect Depreciation Costs (Form 9)	\$28,295	8.2%
	Annual Implementation Cost Amortization (Form A)	\$40,497	8.2%
	Total Annual Cost of Operations	\$9,853,289	
	Profit (from Operating Ratio below)	\$1,034,323	\$84,265
		90.5%	90.5%
	Total Costs before Pass-Through Cost	\$10,887,612	\$887,001
	Contractor Pass-Through Costs		
	Interest Expense	\$416,943	see note
	Interest Expense on Implementation Cost	\$13,825	see note
	Total Contractor Pass-Through Costs	\$430,768	\$35,744
	BASE CONTRACTOR'S COMPENSATION - 2013	\$11,318,380	\$922,745
	Note: Interest Expense is allocated based on the % of each agency's depreciation expense to the total. Calculation is not shown above.		

COST ALLOCATION METHODOLOGY: APPLYING OPERATING STATISTICS TO COSTS

- 4 Operating Statistics are applied to:
- 12 Cost Categories: wages, benefits, fuel, container maintenance, implementation, etc.
- For each of the 17 “Lines of Business”:
 - Single-Family Garbage, Recycle, Compost (3)
 - Commercial/Multi-Family Garbage, Recycle, Compost (3 more)
 - Agency Facilities Garbage, Recycle, Compost (3 more)
 - Twice Annual Bulky Items Collection (1 more)
 - Etc.

RECOLOGY COST ALLOCATION PROCESS



RECOLOGY COST ALLOCATION – RESULTS FOR 2014

Percentage of Total Contractor's Compensation Total Cost Allocation

	2013	2014	Difference %	Variance %	Difference \$
Atherton	2.45%	2.60%	0.15%	6.03%	\$ 84,967
Belmont	6.43%	6.33%	-0.10%	-1.59%	\$ (58,686)
Burlingame	9.72%	9.81%	0.08%	0.86%	\$ 48,129
East Palo Alto	4.05%	4.09%	0.03%	0.82%	\$ 19,153
Foster City	6.02%	6.27%	0.25%	4.23%	\$ 146,584
Hillsborough	4.11%	4.18%	0.07%	1.60%	\$ 37,902
Menlo Park	10.11%	10.00%	-0.11%	-1.09%	\$ (63,409)
North Fair Oaks	2.93%	2.93%	-0.01%	-0.27%	\$ (4,603)
Redwood City	17.93%	17.66%	-0.27%	-1.48%	\$ (152,954)
San Carlos	9.13%	9.00%	-0.14%	-1.51%	\$ (79,385)
San Mateo	21.58%	21.65%	0.07%	0.33%	\$ 40,519
West Bay Sanitary	1.87%	1.71%	-0.16%	-8.62%	\$ (92,852)
County of San Mateo	3.66%	3.78%	0.13%	3.55%	\$ 74,636
Totals	100%	100%	0.00%	N/A	\$ 0

RECOLOGY COST ALLOCATION – 2013 TO 2014

COST CHANGE SUMMARY: 2013 to 2014								
<i>estimate</i>	2013 BASE						2014	
Member Agency	Total Cost	% of Total	Cost Adjustment (\$)	Cost Adjustment (%)	Cost Allocation Change (\$)	Cost Allocation Impact (%)	Total Cost	% of Total
Atherton	\$ 1,398,175	2.46%	\$ 10,022	0.7%	\$ 85,133	6.1%	\$ 1,493,330	2.61%
Belmont	\$ 3,673,265	6.48%	\$ 26,329	0.7%	\$ (58,249)	-1.6%	\$ 3,641,345	6.37%
Burlingame	\$ 5,554,239	9.79%	\$ 39,812	0.7%	\$ 48,790	0.9%	\$ 5,642,840	9.88%
East Palo Alto	\$ 2,316,529	4.08%	\$ 16,604	0.7%	\$ 19,428	0.8%	\$ 2,352,562	4.12%
Foster City	\$ 3,438,581	6.06%	\$ 24,647	0.7%	\$ 146,993	4.3%	\$ 3,610,222	6.32%
Hillsborough	\$ 1,941,523	3.42%	\$ 13,917	0.7%	\$ 31,387	1.6%	\$ 1,986,827	3.48%
Menlo Park	\$ 5,778,329	10.19%	\$ 41,418	0.7%	\$ (62,722)	-1.1%	\$ 5,757,025	10.08%
North Fair Oaks	\$ 1,676,530	2.96%	\$ 12,017	0.7%	\$ (4,404)	-0.3%	\$ 1,684,143	2.95%
Redwood City	\$10,241,677	18.06%	\$ 73,411	0.7%	\$ (151,735)	-1.5%	\$ 10,163,353	17.79%
San Carlos	\$ 5,218,114	9.20%	\$ 37,403	0.7%	\$ (78,764)	-1.5%	\$ 5,176,752	9.06%
San Mateo	\$12,327,621	21.73%	\$ 88,362	0.7%	\$ 41,986	0.3%	\$ 12,457,969	21.81%
West Bay Sanitary	\$ 1,069,442	1.89%	\$ 7,666	0.7%	\$ (92,725)	-8.7%	\$ 984,382	1.72%
County of San Mateo	\$ 2,088,143	3.68%	\$ 14,967	0.7%	\$ 74,885	3.6%	\$ 2,177,995	3.81%
Total Base Compensation	\$56,722,167	100.00%	\$ 406,575	0.7%	\$ 0	0.0%	\$ 57,128,745	100.00%
% Total Increase			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.

CHANGING THE RECOLOGY COST ALLOCATION METHODOLOGY

- Compensation paid to Recology is currently allocated based on operating statistics.
- Recology requested consideration to discontinue annual adjustment to allocation of costs.
- Change requires separate approval of all 12 Member Agencies.

POTENTIAL BENEFITS OF FIXED ALLOCATIONS VS. ANNUAL DETERMINATION

- Improved rate predictability.
- Member Agencies with higher than CPI growth will be subsidized by those with lower than CPI growth.
- Minor cost savings (\$10-15,000/year) for SBWMA, less to audit.
- Recology cost savings since no more Annual Route Assessment
- Additional Recology cost savings due to less work in preparing annual compensation application

POTENTIAL ISSUES OF FIXED ALLOCATIONS VS. ANNUAL DETERMINATION

- Member Agencies with lower than CPI growth will be subsidizing those with higher than CPI growth.
- Allocation of costs won't accurately reflect the actual level of effort by Recology in each Member Agency.
- If actual operating statistics are different at start of next contract, result could be significant "true-up" cost adjustment.
- Loss of primary source of actual operational data needed in benchmarking operations critical to analyzing future contract extension.
- 100% concurrence by all Member Agencies may be difficult to achieve.

QUESTIONS?

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