

Solid Waste Rates and Rate Setting Process

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Simple. Smart. Green.

Solid Waste Rates and Rate Setting Process

- Previous Rate Setting Process with Allied Waste
- Overview of Current Rate Setting Process with Recology
- Recology Specific Rate-related Issues for 2013 Rates
- 2012 Rate Survey
- Five-Year Cost Projection Model

Previous Rate Setting Process with Allied Waste

- “Cost Plus” Compensation Methodology
 - Annual review of compensation application by 3rd party consultant w/ final review and approval by SBWMA
 - Review focused solely on completeness, accuracy and determining “allowable expenses”
 - Not typically reviewed were operational aspects or efficiency of providing service
- Guaranteed Profit
 - Allied Waste compensated for all Allowable Expenses + guaranteed Profit (i.e., calculated using profit of 9.0% multiplied by total allowable expenses)

Previous Rate Setting Process with Allied Waste (continued)

- Annual “Balancing Account”
 - If rates not set to meet established revenue requirement or due to other factors affecting revenue, the deficit owed to the company accrued with interest until contract expiration.
 - Total of \$10.6 million owed to Allied Waste at the end of the contract term (i.e., 12/31/10).

Overview of Current Rate Setting Process with Recology

- **What are the roles and responsibilities?**
 - Recology submits annual Compensation Application on July 1 per requirements of Franchise Agreements. (SBR also submits an application on July 1st)
 - Member Agencies responsible for reviewing the application and confirming their account data is accurate.
 - SBWMA staff responsible for reviewing the application for completeness and accuracy.
 - All parties identify any one-time issues that need to be addressed in rate application.

Overview of Current Rate Setting Process with Recology

What are the roles and responsibilities cont.

- SBWMA consolidates all rate impact related data (i.e., Recology cost, other pass-through costs, Agency fees, disposal and processing cost, plus other adjustments) and issues its rate report for consideration by SBWMA Board of Directors.
- SBWMA Board approved report (stating Recology Revenue Requirement) is binding for all Member Agencies.
- Member Agency's governing bodies set the rates by service sector (residential and commercial) and service level (e.g., 20-gal., 32-gal., 64-gal., 96-gal., etc.) to generate revenue sufficient to meet the revenue requirement.

Comparison of Past and Current Rate Setting Process

Summary Comparison of Past and Current Compensation Methodologies			
Aspect of Compensation Methodology	Past	Current	
	<u>Allied Waste</u>	<u>Recology</u>	<u>Same as Past</u>
Profit	Allowable Expenses x 9.0% Profit	Base Cost and Profit Fixed with Index Adjustments Only ²	No
Balancing Account	Unlimited Balancing Account ¹	No Balancing Account (compensation fixed for year)	No
Allocation of Costs	Based on Operational Statistics	Based on Operational Statistics	Yes
	Statistics Compiled Manually	Statistics Derived Directly from On-board Computer Systems	No
SBWMA Board of Directors	Annually Approve Total Revenue Requirement	Annually Approve Total Revenue Requirement	Yes
Member Agency Role	Annually Set Rates	Annually Set Rates	Yes
¹ Final year (i.e., 2010) of Allied Waste contract the Balancing Account was \$10.6 million owed to the company.			
² CBA wage and benefits paid at actual until agreements expire then index thereafter.			

Rate Setting Process Schedule

<u>Due Date</u>	<u>Milestone</u>
March 31, 2012	2011 Recology Revenue Reconciliation Report Released
July 1, 2012	2013 Recology and SBR Compensation Applications Released
September 1, 2012	SBWMA Draft Compensation Reports Issued to Member Agencies
September 10, 2012	Member Agencies Written Comments Due to SBWMA
September 20, 2012	SBWMA Releases Final Compensation Reports and Consolidated Rate Report to SBWMA Board
September 27, 2012	SBWMA Board Meeting: Consideration of Final Draft Compensation Reports and Consolidated Rate Report
October 1, 2012	Final RSMC and SBR Compensation Reports and Consolidated Rate Report Issued by SBWMA
September 28 – December 31, 2012	Member Agencies Set Rates for 2013
January 1, 2013	Effective Date for New 2013 Rates

Overview of Current Rate Setting Process with Recology

SBWMA - TOTAL COLLECTION REVENUE REQUIREMENT INCLUDING SHOREWAY

SHOREWAY SETS TIP FEES

SBR Operating Cost

+

Other Operating Costs

-

Commodity Revenue

=

Revenue Requirement

Disposal (Ox Mtn, etc.)
Compost Processing
SBWMA Administration
Debt
Franchise Fees Paid to
City of San Carlos

Tip Fees set to meet:
1) Revenue Requirement;
2) Bond Covenants
Requirements; and, 3)
Reserve Funds Per
Board Policy

COLLECTION COST & RATES

Recology
Operating Cost

+

Disposal at Shoreway

+

Agency Fees

=

Revenue Requirement
to RSMC

Disposal:
Estimated tons
x Shoreway Tip Fee

Customer Rates set by
each Agency to Meet
Revenue Requirement

Note: Simplified - for illustration only.

Overview of Current Rate Setting Process

SBWMA - CONTRACTOR COST ADJUSTMENT PROCESS

Collection and Shoreway Operations Contracts

BASE COST		ADJUSTMENT		2013 CONTRACTORS COMPENSATION
CBA (wages and benefits)	+	Actual CBA contract terms	=	Base plus Adjustment
CBA Mechanics	+	Index	=	Base plus Adjustment
Other Cost	+	Index	=	Base plus Adjustment
Power	+	Actual rate change from PG&E	=	Base plus Adjustment
Depreciation	+	No Change	=	Last Year's Depreciation
Profit	+	Profit calculated on total adjustments at Operating Ratio in Proposal	=	Base plus Adjustment
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 reimbursed (i.e., Buyback payments, regulatory fees, etc.)		Actual Cost
TOTAL BASE CONTRACTOR COMPENSATION	+	Total of all Costs Above	=	Total of all Above Costs

Note: Simplified - for illustration only.

Recology Cost Allocation Methodology

- Cost allocation process is similar to the method used by Allied Waste per old franchise agreement
 - Allied used statistics in April to allocate their costs to Member Agencies. These statistics were manually compiled by Allied.
 - Recology uses statistics from May to allocate their costs to the Member Agencies. **These statistics are derived from the on-board computer system.**
- Allied Waste used modified route days to approximate driver hours whereas Recology uses actual driver hours to allocate costs
- These operational metrics are used to allocate the approved compensation (costs) for the next year

2011 Recology Revenue Reconciliation

2011 REVENUE RECONCILIATION PROCESS

January 1, 2011¹

Approved Revenue Requirement

=

Recology Compensation

+

Estimated Disposal Expense

+

Estimated Agency Fees

Estimated Revenue Surplus/Shortfall

Agency Sets Rates

Fixed Component

Variable based on actual tons and Tip Fees

Variable per Member Agency direction

December 31, 2011

Actual Revenue Billed

-

Recology Compensation (No Changes)

-

Actual Disposal² Expense Paid to SBWMA

-

Actual Agency Fees Paid to Agency

=

Actual Revenue Surplus/Shortfall Applied to 2013 Rates

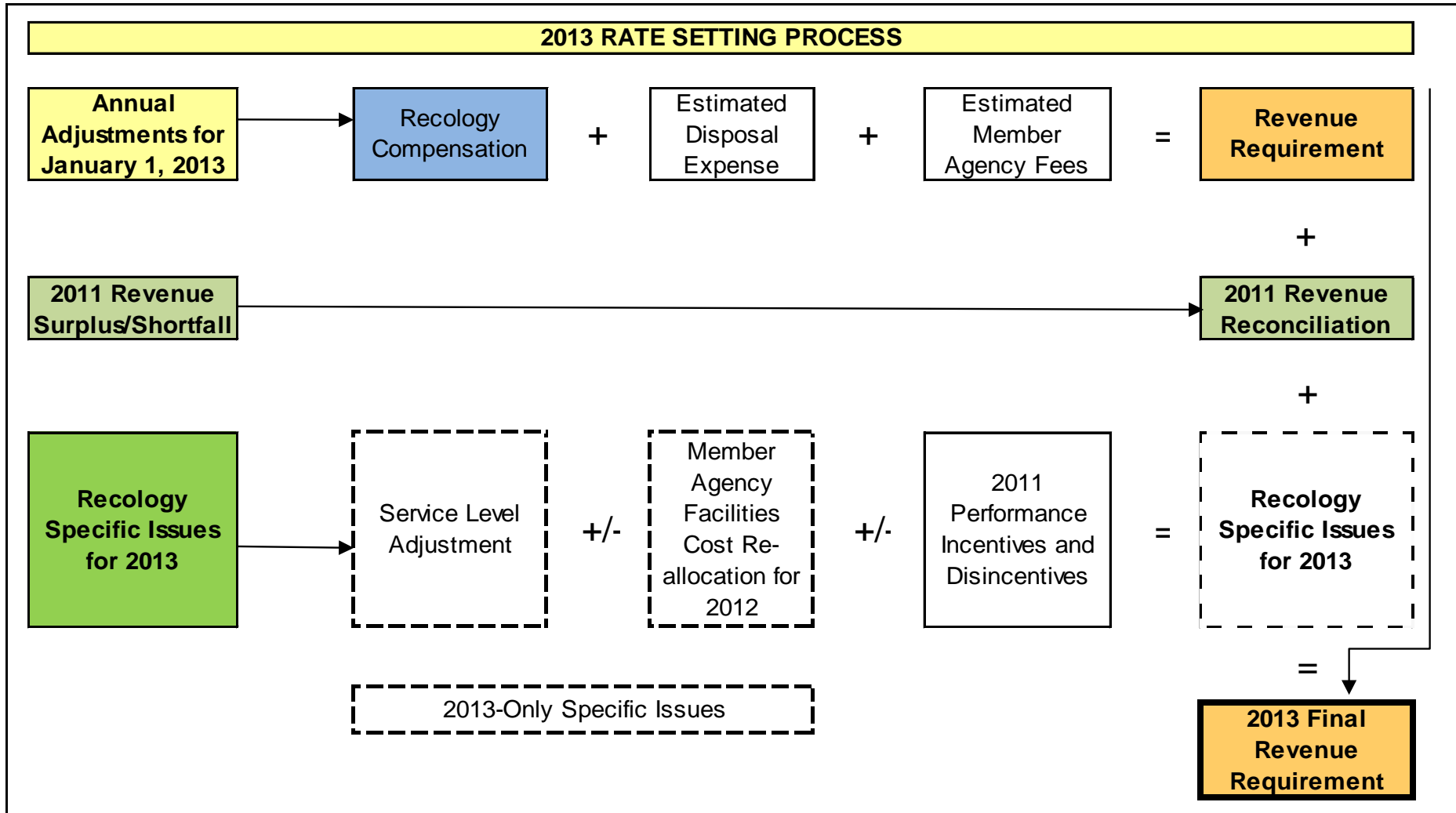
¹ SBWMA Board approves Total Revenue Requirement in September for Member Agencies to set rates effective January 1.

² Also includes Organics and Food Scraps Processing costs (tons by Member Agency x contractor rates/ton).

Major Factors Affecting Revenue Surplus/Shortfall

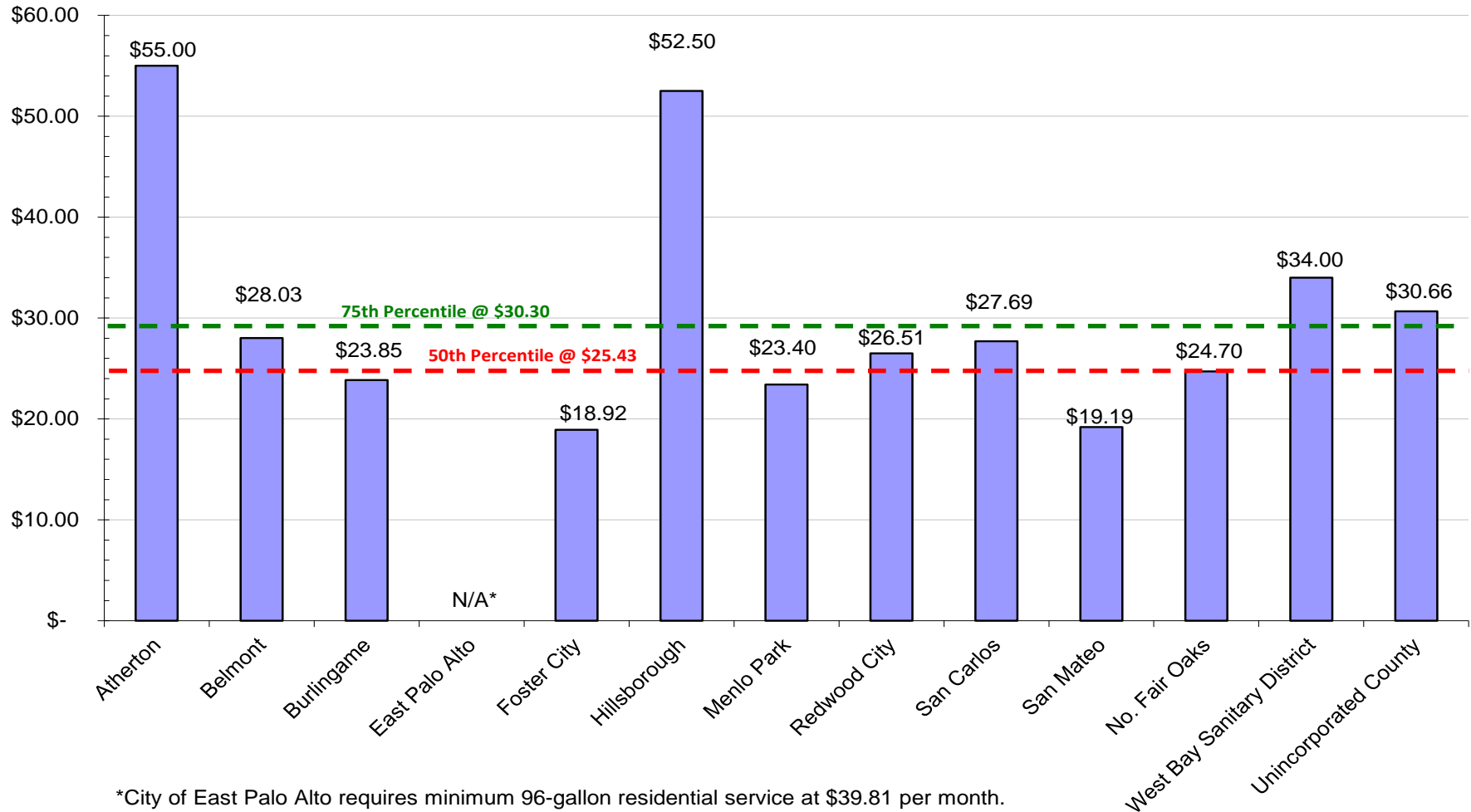
- Agencies setting rates above/below recommended level
 - Rates set late and become effective after January 1
- Residential cart migration
 - Customers switching to smaller carts at lower rates
 - Exacerbated by rates set at artificially low costs
- Fluctuations in commercial customers service levels
 - Changes in size of containers
 - Changes in frequency of collection
 - Businesses opening/closing

Collection Services Rate Setting Process for 2013 Rates



2012 Rate Survey

SBWMA Residential 32 Gallon Rates (on April 1, 2012)



*City of East Palo Alto requires minimum 96-gallon residential service at \$39.81 per month.
Town of Hillsborough rate includes a \$25.00 fee assessed on the property taxes.

Five-Year Collection Cost Projection Model

- Model developed as tool to forecast costs and develop rate impact scenarios
- Assumptions used include:
 - Current CPI change used with increases in years 3 & 4
 - Tonnage increase for 2013 only, then held constant; figures to be updated this summer
 - Member Agency fees same as fees in 2012 rates
 - Same cost allocation to Member Agencies
- Model requires extensive Member Agency feedback to ensure comfort level with various assumptions
 - Tonnage
 - Agency fees
 - Revenue issues

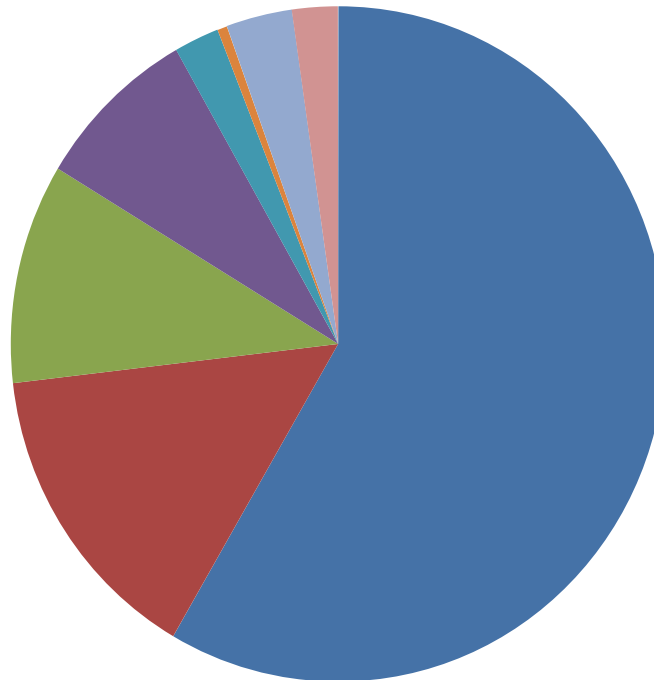
Five-Year Collection Cost Projection

TOTAL COLLECTION COST PROJECTION FOR 5-YEARS	<u>Year Over Year Percentage Annual Increase</u>					
	<u>2012 vs.</u>	<u>2013 vs.</u>	<u>2014 vs.</u>	<u>2015 vs.</u>	<u>2016 vs.</u>	<u>2017 vs.</u>
	<u>2011</u>	<u>2012¹</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Recology Compensation	3.8%	6.4%	2.1%	2.4%	2.5%	2.5%
Other Pass-Through Costs						
Disposal and Processing Fees	2.1%	2.8%	3.0%	3.0%	3.0%	3.0%
Agency Franchise & Other Fees	4.5%	7.8%	4.1%	1.0%	2.3%	3.2%
Agency Contract Management						
Agency Specific Contract Changes						
Subtotal Other Pass-Through Costs	2.9%	4.5%	3.4%	2.3%	2.8%	3.1%
TOTAL COST OF COLLECTION	3.4%	5.6%	2.6%	2.4%	2.6%	2.7%

¹ Primarily due to one time issues applicable to 2013 rates. Includes 4.4% base cost adjustment and 2.0% preliminary service level adjustment.

Cost Components of Your Garbage Rates

SBWMA Total Collection Expense Detail - 2012



- \$ 53.3 Recology Collection Cost (58%)
- \$ 13.5 Franchise Fees (15%)
- \$ 9.6 SBR Operating Cost (11%)
- \$ 7.4 Shoreway Disposal Expense (8%)
- \$ 2.0 Taxes @ Ox Mtn on Disposal (2%)
- \$ 0.4 SBWMA - Allied Balancing Account (0.5%)
- \$ 3.0 SBWMA Program Expense (3%)
- \$ 2.0 Bond Interest Expense (2.5%)
- \$ 91.2 TOTAL COLLECTION EXPENSE

