

2017 Refuse Rate Application
Schedule C: Summary of Significant Assumptions



December 13, 2016

Recology Sunset Scavenger
Recology Golden Gate

The following schedule describes the projected revenues and expenses for Recology Sunset Scavenger and Recology Golden Gate (“RSS and RGG”), as well as the assumptions underlying those revenue projections.

I. Programs

A. Overview

The trash, recycling, and composting collection programs currently operated by RSS and RGG will be adjusted during Rate Year 2018 (RY2018) to help facilitate greater diversion within the City of San Francisco (“City”).

Since the passage of the Mandatory Recycling and Composting Ordinance in October 2009, recycling levels in the City have steadily increased to the point where the current collection methodology has reached capacity. To further advance Zero Waste efforts in the City, RSS and RGG have identified strategic changes to their collection programs, designed to downsize trash subscription levels, upsize recycling, and increase recycling capacity through the use of dedicated, single-chamber collection vehicles.

Key changes to the collection programs during RY2018 include:

1. The acceptance of additional recyclables in customers’ blue bins;
2. Diversion-focused service level adjustments available to curbside residential, apartment, and commercial customers;
3. Redesigned collection routes to accommodate the increase in diverted material;
4. The installation of new a Route Management System (RMS) in collection vehicles to help monitor all material streams;
5. A Multi-Unit Diversion Program at select apartment buildings, with the goal of decreasing the amount of material sent to the landfill, reducing contamination, and increasing recycling and compost tonnage; and
6. Increased outreach and education to help customers properly engage with their diversion programs.

The assumptions associated with the collection programs, including the proposed changes, are described below.

The total tonnage collected by RSS and RGG is based on the tonnage for the 12 months ended on June 2016.

B. Additional Recyclables

Recology San Francisco (RSF) has completed an \$11.6 million upgrade to the sort lines and equipment at Recycle Central, increasing the throughput capacity and recovery of recyclables. Further details on these improvements are available in Schedule C: Summary of Significant Assumptions for Recology San Francisco.

With these developments at Recycle Central, RSS and RGG will begin accepting additional recyclables in customers’ blue bins. This includes aseptic containers, gable-topped cartons, textiles, small pieces of metal, and unpainted wood.

C. Diversion-Focused Service Level Adjustments

In support of the Zero Waste 2020 initiative, single-family curbside, multi-family, and commercial customers will be encouraged to divert more material through targeted adjustments to their service levels, with a focus on downsizing trash.

Currently, single-family homes can choose from 96-gallon, 64-gallon, 32-gallon, or 20-gallon bins for trash, recycling, or organics service. The most commonly chosen size in each stream is 32-gallon.

Under the new service levels, single family homes will receive a 16-gallon default black bin size, with the option for 32-gallon and 64-gallon sizes. Customers will be asked to select larger recycling and composting bins as part of this trash service level change. Recycling bins will continue to be available in 96-gallon, 64-gallon, or 32-gallon sizes. Organics bins will continue to be available in 64-gallon or 32-gallon sizes. These adjustments are designed to encourage greater participation in the recycling and organics programs. The rollout for the single family service level changes is expected to occur between July 2017 and June 2019.

Recology will encourage similar service level adjustments for multi-family and commercial customers. These customers will be asked to downsize their trash service, while increasing the level of their recycling and organics service.

D. Fantastic 3 Trash, Recycling and Composting Routes

Previously, RSS and RGG used split-chamber vehicles to collect trash and recyclables; compostables were collected using single-chamber vehicles. However, as the adoption of diversion services continues to increase, the volume of recyclables has outgrown the capacity of the split-chamber vehicles. RSS and RGG are therefore proposing to redesign the existing routes using single-chamber trucks to collect recyclables and split-chamber trucks to collect organics and trash.

Under this option, a total of 189 Fantastic 3 trash and composting collection routes would be necessary, an increase of 23 collection routes in total. More routes would be needed because currently organics collection trucks need to stop at only one out of approximately every three residences, whereas the new collection system would require split-chamber organics/trash trucks to stop at every residence. The number of routes is also expected to accommodate the projected growth in diversion services. The new routes would be rolled out over a two-year period, beginning in July of 2017.

The launch of the new routes will coincide with upcoming diversion-focused service level adjustments. Single-family curbside customers will have a new, smaller 16-gallon trash bin default size and will be encouraged to increase their subscriptions to diversion services.

Collecting recyclables in single-chamber vehicles will provide greater capacity for the anticipated increase in recycling subscription levels. In addition, the single-chamber recycling routes would be able to drive directly to Pier 96 without stopping first at the Tunnel Avenue facility.

E. Commercial Recycling

RSS and RGG currently operate 14 commercial recycling routes per day. Commercial customers are encouraged to increase their subscriptions to diversion services; therefore, RSS and RGG anticipate additional commercial migration towards recycling services. However, routing efficiencies should allow RSS and RGG to absorb any changes in the customer composition or material volume; the total number of commercial recycling routes is not expected to change in RY2018.

F. Commercial Composting

RSS and RGG currently operate 18 commercial composting routes per day. That volume is expected to grow as composting subscription levels rise. One additional route is being proposed for RY2018.

G. Route Management System

RSS and RGG are proposing to install onboard Route Management Systems (RMS) in all collection vehicles. The system electronically processes and records service data, including details on individual stops; this will eliminate manual data entry and manual processing of driver service tickets.

The RMS will consist of a tablet-based onboard computer system offering electronic route lists, GPS guidance, and cameras. On each screen, drivers will be able to view stop-by-stop service comments, including special service requests. Dispatch and management will be able to view live route service information for the fleet.

Furthermore, the RMS allows drivers, dispatchers, and customer service to communicate in real-time. Critical information such as schedule changes, missed pickups, and extra collections could be shared through the RMS, helping to contribute to a positive customer experience.

The RMS archives service record data by customer, allowing RSS and RGG to access detailed historical collection records. Information available includes service times and relevant photo documentation. This will enable RSS and RGG to better monitor customer compliance with diversion programs. For example, if a driver identifies a customer with improperly sorted material, the customer's information would be available to Recology's Customer Service Representatives, who will then follow up with additional customer education.

G. Multi-Unit Diversion Program

Multi-unit facilities – defined as both “apartment” and “commercial” rate customers with six or more dwelling units – are the lowest-performing sector for diversion. Numerous barriers contribute to this poor diversion performance, including low tenant participation, program accessibility, and limited quality control. There are approximately 9,500 accounts in the City that qualify as multi-unit facilities, making these customers an important segment to achieve the City's zero waste goals.

During RY2018, RSS and RGG propose to commence a Multi-Unit Diversion Program with the goal of decreasing the amount of material sent to the landfill, reducing contamination, and increasing recycling and compost tonnage.

The program will focus on new apartment buildings (2010 and newer) with 50 or more units, as well as apartments with large volumes of potentially divertible material. The City has seen rapid growth in the number of properties that fall in these categories, providing a significant opportunity to encourage more resident diversion.

RSS and RGG will work closely with the San Francisco Department of the Environment (SFE), the Professional Property Management Association of San Francisco (PPMA), and the San Francisco Apartment Association (SFAA) to implement the initiative. The components of the program are divided into two categories:

1. Tenant Engagement & Education, which includes:
 - Outreach material, including a Welcome and Exit packet for tenants during move-in and move-out periods.
 - Delivery of compost pails coupled with education on pail usage.
 - Email blasts and mailings for property management to distribute to tenants.
 - Waste Zero Ambassadors at each building, responsible for motivating their neighbors to sort properly. The Ambassadors will be eligible for a monthly stipend or donation to a charity, and will be highlighted on the Recology website.
 - Implementation of a social media group platform to facilitate tenant discussion and engagement. The platform could be used to earn incentives for diversion, encouraging friendly competition among tenants.

2. Facility Management and Infrastructure, which includes:
 - The implementation of appropriate service subscription levels at new buildings, to provide ample capacity for diversion.
 - Communicating the requirements of the Mandatory Recycling and Composting Ordinance with property management.
 - Installation of signage and internal bins to improve resident access, when necessary.
 - Where applicable, close trash chutes or convert the chutes to recycling.
 - Conduct training for facility and maintenance staff, focusing on contamination identification and the importance of properly labeled containers

This rate application includes all program costs, including any necessary structural modifications (such as extra bins), tenant incentives, education and outreach, social media group platform development, and one full-time employee.

H. Outreach and Education

Customer education is essential to the successful implementation of the new collection practices. Residents and businesses need to be aware of the changes, understand why they are an important to achieve Zero Waste, and know how to properly engage with their new services.

Recology will therefore offer additional outreach and education materials to facilitate participation and create a sense of excitement around customers' diversion services. Additional staff will also be available to distribute the new information. Educational material will include introductory letters, follow-up postcards, cart hanger notices, website information, and potentially other resources.

I. Bulky Item Recycling

The bulky item recycling program is available to residential rate payers (two service appointments per customer per year) and to apartment owners and tenants (one service appointment per unit, plus one building appointment, per year). The program accepts appliances, electronics, mattresses, furniture, scrap metal, wood, and other items. A significant percentage of the material collected under this program is diverted.

The program currently operates with an average of ten trucks and drivers per day. Approximately 32,800 stops were made during RY2016, collecting approximately 4,150 tons of material. RSS and RGG perform extensive outreach to publicize the program. In addition, a new smartphone app will make it more convenient for residents to schedule services within 48 hours of their initial call.

As a result of outreach efforts and the app, demand for bulky item collection services is expected to increase 10% during the upcoming rate period. Two additional trucks and drivers are proposed for RY2018; demand for this service is expected to remain at this level during the upcoming rate period.

J. Public Litter Cans

RSS and RGG service all public litter cans on a daily basis. One additional public litter can route is proposed in RY2018, for a total of 11 routes. The additional route is necessary to meet high volume in heavily trafficked commercial corridors. All public litter cans are serviced at least once per day, and cans in the downtown area and business corridors are collected an additional one to four times per day.

In addition to the first pass collection and multi-pass routes, RSS and RGG use a dedicated rover truck in the downtown shopping district during the holiday season to accommodate the increased need for service. Furthermore, RSS and RGG are integrated with the City's 311 dispatch system, receiving real-time requests from the 311 application. RSS and RGG are committed to service, within a two hour window, any public litter can that is reported to need service.

RSS and RGG provide support to San Francisco Public Works (SFPW), including replacement of liners, locks, and broken doors on concrete cans. Supplies are provided by SFPW.

K. District and Special Event Clean-up

This rate application includes costs for two annual clean-up events in each Supervisorial District. The additional driver time and tonnage necessary for these events is included in the expense projections to accommodate the expanded schedule.

This program includes a compost giveaway for residents in each District. In addition, RSS and RGG are periodically asked to provide extra support for community clean-up activities (such as coastal clean-up, Arbor Day, etc.).

In an effort to work closer with special event producers to ensure successful planning and execution of zero waste events in the City, RSS and RGG propose one full-time employee as a Waste Zero Specialist (WZS) dedicated to special events. The WZS will provide pre-event consultation and outreach, along with post-event compliance audits.

Additionally, the WZS's core responsibilities include consulting with special event producers on increasing diversion, decreasing contamination, and ensuring program compliance, as well as creating and managing a special event database, generating revenue, collaborating with SFE, and supporting community-based event greeners.

L. Abandoned Materials Collection

In collaboration with SFPW, RSS and RGG collect abandoned materials identified through the City's 311 reporting system. Drivers also collect abandoned materials identified by RSS and RGG personnel.

The program operates similarly to the Bulky Item Recycling program. RSS and RGG use five rear-loading packer trucks, five box vans (for mattresses, electronics, appliances, etc.), and one pickup truck. Generally these crews consist of two drivers.

Drivers are assigned to a specific service area, and are routed to collect materials reported through the City's 311 system, along with abandoned materials present on their route that are not reported through the 311 system. All stops and collections are documented, and material is diverted as appropriate.

The abandoned materials collection program also provides support for City events, such as parades, festivals, and holidays. This rate application includes all program costs, including 10 drivers each weekday, eight drivers on Saturday, and six drivers on Sunday. Supervision, administrative support, vehicle costs, and disposal costs corresponding to projected tonnage is also included.

For RY2018, two more collection routes and drivers are proposed to support increased SF 311 service requests and to provide additional support for SFPW Bureau of Street and Environmental Services division.

II. Revenues

Recology is proposing the use of Tier 1 and 2 ZWI funds received during prior rate years to help offset the first year of rate increases for customers. In addition, Recology is proposing to rebate the remaining funds in the Special Reserve Fund in the form of a reduction to the proposed increase over the next years.

As a result, Recology is proposing to reduce its revenue requirement by \$14 million in RY2018, and \$2.5 million in rate years 2019 and 2020. This reduces the proposed rate increase from 21.9% to 16.65% in RY2018. In RY2019, Recology's revenue requirement would increase by \$11.6 million; the residential rate would increase 4.4% in addition to the calculated cost of living adjustment. RY2019 would continue to include the \$2.5 million rebate from the Special Reserve Fund and would only be impacted by the cost of living adjustment. In RY2020, rates would increase approximately 1% in addition to any cost of living adjustment calculated, since the rebate from the Special Reserve Fund would be exhausted.

A. Residential Rates

As discussed in the Narrative Summary included with this application, RSS and RGG are proposing an adjustment the residential collection rates. The new rates for residential customers will include a nominal charge of \$5.25 per 32-gallons of capacity for recycling and composting streams. This adjusted charge is not expected to negatively impact recycling and composting subscription levels. Customers will continue to be incentivized to move towards diversion services because the volumetric charge for recycling and composting will continue to be substantially less than the proposed volumetric charge for trash service.

In addition to the variable cost adjustment described above, RSS and RGG are proposing a fixed charge of \$20.00 for each residential dwelling unit. The fixed charge is designed to cover some of the fixed system costs associated with providing residential services, such as capital costs, administrative costs, and regulatory costs.

Individual residential customer rate increase percentages will vary depending on their respective volume and service composition. Residential rates are projected to generate 16.65% additional revenue in RY2018. After adjusting for the revenue generated by fixed charge and blue and green charges described above, a single, 32-gallon black bin will have a rate of \$10.50 per month.

The variable cost for a 16-gallon trash bin will reflect a proportional volumetric charge. The cost for a 16-gallon trash bin is 50% of the cost of a 32-gallon trash bin. Other charges, including the \$20.00 per dwelling unit charge and volumetric charges for recycling and composting services, will apply to 16-gallon customers.

B. Apartment Rates

RSS and RGG propose to continue the discounted volumetric apartment rate structure, which was adopted in 2013 and patterned after the commercial rates structure. The rate structure includes a fixed charge and equal volumetric charges for all service volumes, irrespective of the type of service. These charges are partially offset by discounts for recycling and composting services. Due to the widely varying levels of service, a specific customer may experience an increase that is more or less than the 16.65% increase required.

The proposed rate structure includes a \$5.00 per dwelling unit fixed charge. This charge is the same as the fixed charge for residential customers, and is intended to cover some of the fixed system costs associated with providing service to apartment customers (including capital costs, administrative costs, and regulatory costs).

The proposed structure includes volumetric charges equal to \$24.75 per 32-gallons of weekday service, irrespective of the type of service.

The resulting calculated gross revenue is partially offset by the discounts available for diversion services. Discounts of up to 75% are calculated from each customer's diversion percentage as a percentage of total volume, less 25%. The first 25% of diversion is not eligible for a discount because there is a minimum level of diversion service required by the mandatory recycling and composting ordinance.

For example, if a customer has three equal size bins (one for each of the black, blue and green streams) they have a 67% gross volumetric discount rate. The discount they would receive on their volumetric charges is 42% (67% minus 25%). If the customer added another recycling bin, the discount would become 50% (75% minus 25%).

Due to the diversion-focused rate structure, RSS and RGG anticipate continued migration from trash service to diversion services. RSS and RGG have included a revenue reduction related to migration in this rate application, at 1.0% of existing apartment revenue before rate adjustments. Migration is expected to increase in subsequent years.

C. Disabled Service

This rate application continues the disabled service program. The program provides a waiver of key, distance, and elevation charges for disabled and elderly infirm persons, if no able-bodied person resides at the residence.

D. Low-Income Discounts

This rate application continues the low-income discount program. The program will charge low-income customers 75% of the regular service rates, based on their service configuration. Eligibility documentation for customers and verification procedures for RSS and RGG will remain the same.

E. Commercial Rates

RSS and RGG are implementing some minor changes to the commercial rate structure. The changes are designed to maintain a sustainable revenue stream while moving towards Zero Waste. The new rate structure also creates new incentives to drive further diversion by commercial customers.

Commercial revenues are expected to increase as a result of the structural changes and are included in the rate model as a reduction of the revenue requirement used to calculate residential and apartment revenue requirements. Commercial rates will be adjusted to allow for an overall increase approximately equal to the final approved residential and apartment revenue increases.

The fixed rate for commercial customers is moving from 10% to 0% of each commercial bill. The fixed costs will now be recovered through the increase in the diversion not eligible for a discount described below.

Discounts of up to 100% of the variable component of the commercial billings are still available, based on the proportion of diversion service in excess of 25%. The first 25% of diversion volume is not eligible for a discount because there is a minimum level of diversion service required by the mandatory ordinance.

For example, if a commercial customer has one 96-gallon bin for trash, one for recycling, and one for composting (all collected weekly), then their total diversion volume is 67%. The discount would be 42% (67% minus 25%). If a customer has one two-cubic yard bin for trash, one one-cubic yard bin for recycling, and one one-cubic yard bin for composting (all collected once per week), then their total diversion volume is 50%. The discount on the variable portion of their bill would be 25% (50% minus 25%).

As a result of this adjustment, RSS and RGG anticipate that commercial customers will move from trash service to diversion services to manage costs. RSS and RGG have included a revenue deduction for migration in this application, estimated at 1.0% of existing commercial revenue before rate adjustments.

F. Debris Box Service

Debris box revenue projections are based on the latest 12 months of revenue (October 2015 through September 2016) with a planned 10% increase for changes to disposal costs.

G. Other Revenues

RSS and RGG offer compactor and related equipment sales and maintenance for the San Francisco region. Customers wishing to acquire specialized refuse equipment have the option of purchasing, renting, or leasing the necessary equipment. RSS and RGG also provide maintenance services for refuse equipment, at the customer's expense. These revenues are shown separately and provide an offset to the revenue requirement for regular service.

H. Impound Account

Contributions to the Impound Account, deposited monthly by RSS and RGG, are based on the program and payment requirements for SFE and SFPW.

I. Operating Ratio

The rate application uses a base operating ratio (OR) of 91%, along with Zero Waste Incentives equivalent to up to 2% OR, if RSS and RGG achieve targets, as described in the Narrative Summary.

III. Expenses

A. Wages

Union wages are based on ratified union contracts that run through December 31, 2021. The union wages included in the rate application contain \$0.50 per hour increase, effective as of July 1, 2017. Future increases will be included in the COLA described in the Narrative Summary.

B. Payroll Taxes

Payroll taxes are projected based on current city, state, and federal tax rates.

C. Health and Welfare (including post-retirement)

Health and welfare programs are offered to Recology employees through several service providers. Programs include medical, prescription drug, dental, vision coverage, and long-term disability and life insurance.

During the last several years, RSS and RGG have experienced significant increases in the cost of health care coverage. The current cost of coverage is over \$2,218 per employee per month and is expected to exceed \$2,282 per employee per month in RY 2018.

RSS and RGG have implemented changes to the non-union health benefits in an effort to control costs, including increased co-payments and benefit reductions. Union programs are governed by the contractual obligations and program changes are limited.

The projected health and welfare benefit cost contained in this rate application is based on anticipated calendar year 2017 costs, inflated by 2.7% for the second half of the year (health insurance rates are set on a calendar year basis and adjusted for the rate years). The inflation factor was developed by RSS and RGG's outside actuaries and is based on historical cost increases.

Post-retirement costs in this rate application represent the cost of participation in the Retirement Security Plan (RSP), sponsored by the Teamsters Benefit Trust. The RSP provides post-retirement medical benefits to union members who qualify under the terms of the collective bargaining agreements. The RSP cost is paid monthly for each eligible employee. These costs have increased approximately 8.2% per year over the last few years. The currently monthly cost of the base program is \$677 per eligible employee per month, and is expected to increase 8.2% to \$733 per eligible employee per month as of July 1, 2017.

D. Pension

Pension costs are based on projected contributions to meet Employee Retirement Income Security Act (ERISA) pension plan funding requirements, as determined by RSS and RGG's pension plan actuary.

RSS and RGG's contributions are expected to be \$12,686,500 in RY2018 and \$13,430,000 in RY2019. Analysis from Recology's third-party actuaries show that future contributions will be stable at approximately \$13,400,000 based on current expectations for discounted rates, returns on assets, and relatively static employment levels.

E. Workers' Compensation

Workers' compensation expense covers the costs associated with workers injured on the job. These costs arise from temporary and permanent disability, medical care and medical evaluation, claims administration, insurance premiums, legal fees, and ancillary administrative functions. RSS and RGG participate in a risk pool with all other Recology operating companies. Workers' compensation rates and allocations are established based on the specific historic experience of each company as prepared by a third-party administrator.

Workers' compensation costs have risen over the past several years due to increases in indemnity payments and double-digit medical inflation. Changes in legislation that led to decreases in some areas in the mid-2000s have been undercut by increases in benefits attributed to recent court decisions, and more liberal rules regarding disputes and appeals.

RSS and RGG are continuing to focus on safety training, return to work programs, and improvement in work processes. In spite of those efforts, workers' compensation costs remain high and are expected to increase during the rate period. The cost of workers' compensation is expected to increase approximately 12.9% in 2017 and 12.8% in 2018.

F. Liability Insurance

RSS and RGG participate in a risk pool with all other Recology operating companies to effectively manage the Recology insurance program cost. Liability insurance premium projections are based on information provided by RSS and RGG's insurance brokers and actuaries, along with projected claims costs associated with fleet operations. Claims costs are allocated to RSS and RGG based on their individual claims experience. Other costs are allocated based on a series of measures developed to reflect each participating company's relative size and risk profile.

G. Disposal Costs

Disposal costs are determined based on the estimated disposal tonnage and the projected tipping fee at Recology San Francisco (RSF). The estimated disposal tonnage is based on current tonnage collected, with disposal tonnage adjusted downward for increases in recycling and composting services as well as black bin processing. See RSF's portion of Schedule C: Summary of Significant Assumptions for more details on disposal costs.

H. Repairs and Maintenance

The projected costs related to the repair and maintenance of vehicles are based on the average costs from RY2016, inflated by 3.0% for the rate application period.

I. Fuel

Fuel costs continue to be volatile and have fluctuated (up and down) dramatically over the last several years. Fuel costs for the rate application period are based on the average actual costs from the previous 12-month period (October 2015 to September 2016). Fuel costs are based on \$2.58 per gallon for renewable-diesel, \$2.74 per gallon for unleaded gasoline, \$1.24 per gallon equivalent for liquefied natural gas (LNG), and \$2.78 per gallon equivalent for compressed natural gas (CNG).

J. Licenses and Permits

Licenses and permits include costs for Department of Motor Vehicle registrations, Department of Public Health license fees, and SFPW debris box permits. Costs for the Department of Public Health license fees are based on the actual amount paid in 2016. Costs for other licenses and permits for RY2018 and RY2019 are expected to increase with inflation (3.0% per year) from 2016 levels. RSS and RGG have reduced Department of Public Health license fees for the anticipated change in their collection fleet.

K. Recycling and Composting Processing

The projected processing fees for recyclables are based on the tipping fee and estimated tonnage processed at Recycle Central. The projected processing fees for compostables are based on the tipping fee charged by RSF, as well as estimated tonnages.

L. Professional and Contract Services

Professional service costs for legal fees and general services are based on the average costs from RY2016, inflated by 3.0%. Accounting and engineering fees are based on RY 2016 actual, adjusted 3.0% for RY 2018. In addition, costs associated with the rate application and rate implementation are included in this rate application.

M. Corporate Services

Human Resources (HR) provides benefits, employment law, employee training, and employee management support services. The cost projections for HR are based on RY2016 costs associated with Recology Inc.'s HR Department, adjusted for inflation. These costs are allocated to RSS and RGG based on the percentage of their employees proportional to the total Recology employee headcount.

Corporate Management provides general operations and corporate support services. Corporate Management cost projections are based on RY2016 costs of management services provided by the Corporate Office, adjusted for inflation. These costs are allocated to RSS and RGG based on their percentage of Recology Inc.'s total revenue.

Environmental Compliance provides planning, permitting, and compliance support services. Environmental Compliance costs are based on RY2016 costs of Recology Inc.'s Environmental Compliance Department, adjusted for inflation. These costs are allocated to RSS and RGG based on their percentage of Recology Inc.'s total revenue.

Information Technology (IT) provides systems development support for all technologies. IT costs are based on the RY2016 costs of Recology Inc.'s IT Department, adjusted for inflation. These costs are allocated to RSS and RGG based on a series of measures that approximate computer usage: the percentage of Recology Inc.'s checks written and customer counts that are attributable to RSS and RGG.

Corporate Accounting provides audit, internal audit, treasury, and other financial services. Accounting costs are based on RY2016 costs of Recology Inc.'s Finance Department, adjusted for inflation. These costs are allocated to RSS and RGG based on their percentage of Recology Inc.'s total revenue.

Sustainability provides support for sustainability issues including emerging technologies; green energy; water initiatives; regulatory support related to sustainability; and air, water, and land issues. Sustainability costs are based on RY2016 costs, adjusted for inflation. These costs are allocated to RSS and RGG based on their percentage of Recology Inc.'s total revenue.

N. Office, Telephones, and Supplies Expense

Costs related to telephone and office expenses are based on the RY2016 cost, adjusted for inflation at 3.0% annually. The supplies expense is based on an average from the last three rate years (RY2013 to RY2016), inflated 3.0% for rate years 2017 and 2018. The supplies expense also includes additional supplies required for the Zero Waste Collection Test and Textile Recovery Program projects.

O. Property Rental

Property rental costs are included for leasing off-site office space for customer service and administrative operations.

P. Other Expenses

Other expenses include community outreach, medical expenses, shoes and uniforms, bank service charges, and other miscellaneous items. Community outreach costs include the costs of working with community groups to promote zero waste initiatives and promote Recology and City recycling and composting programs.

Q. Capital Expense

Capital requirements for trucks, equipment, and leasehold improvements are projected based on the replacement schedule and anticipated facility and program needs. Costs are added as equipment is acquired and leased over specified lease years. Generally, lease terms are assigned as follows:

Trucks and rolling equipment:	7 years
Stationary equipment:	10 years
Facility improvements:	15 years

The lease rates are calculated based on the asset lives shown above utilizing an implicit interest rate of 1.7%. The interest rate is reset on a monthly basis, based on the cost of Recology Inc.'s capital. RSS and RGG believe adequate financing will be available for all capital expenditures from Recology Inc.'s line of credit, lease lines with third party lessors, and/or California Pollution Control Financing Authority financing.