



October 30, 2015

Edwin M. Lee
Mayor

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Director

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Refuse Collection and Disposal Rate Board
Ms. Naomi Kelly, City Administrator, Chair
Mr. Ben Rosenfield, Controller, Member
Mr. Harlan Kelly, General Manager of Utilities, Member

Dear Members of the Rate Board:

In the 2013 rate proceedings, the Rate Board requested that the Department of Public Works and the Department of the Environment submit reports to be considered when the Rate Board reconvenes. The requested reports are attached and summarized below.

Abandoned Materials Collection Program

The Rate Board requested a report on the Abandoned Materials Collection (AMC) Program on the effectiveness of the first two years of the pilot program, during which Recology assumed responsibility for collecting designated abandoned materials. Per the Rate Board request, the AMC Program Report includes data analysis as to whether there has been an increase in diversion from landfill of such materials, consistent with achieving the City's goal of zero waste, in a cost-effective manner.

In preparing the report, Public Works looked at three criteria for measuring program effectiveness – response time, service level, and diversion. As the report demonstrates, Recology has consistently met the response times established in the Director's Rate Order of four business hours on weekdays and eight business hours on weekends and holidays. With respect to service levels, the number of service requests referred to Recology has remained relatively constant over the first two years of the pilot program. By reconfiguring AMC operations, Recology has been able to divert more than 60 percent of the materials from landfill, a considerable improvement over the diversion rates for materials collected by Public Works (12-36 percent). In the first two years on the AMC Program, Recology collected 3,986 tons in FY2014 and 3,802 tons in FY2015, which represent approximately 25-30 percent

more materials than Recology assumed in their rate application. In effect, Recology is providing a higher service level than was funded in the 2013 rate application, which supports my conclusion that the program is cost-effective.

Special Reserve Fund

The Rate Board requested a report on the Special Reserve Fund (Fund) including all contributions to and expenditures from the Fund since its inception, and a preliminary assessment of future conditions that may require use of the Fund, particularly in connection with the expiration of the current Waste Disposal Agreement with Waste Management of Alameda County for the Altamont landfill. The Fund was created pursuant to the terms of the 1987 Agreement in Facilitation of Waste Disposal (Facilitation Agreement) between the City and Sanitary Fill Company (now Recology) for extraordinary expenses not covered by existing refuse collection and disposal rates.

The Department of the Environment (SFE), which oversees Fund expenditures, prepared the report with assistance from Public Works staff and my concurrence. Since its inception, the surcharge has generated approximately \$38.2 million for the Fund. Total expenditures from the Fund have equaled \$8.6 million for upgrades and improvements at the landfill driven by new regulatory requirements (e.g., wastewater treatment, electronic waste handling), various Alameda County fees, and equipment to accommodate Recology vehicles (e.g., tipper engines) and operations, leaving a current balance of \$29.6 million.

Based on current disposal volumes, SFE estimates that the City will reach its contracted capacity for disposal at the Altamont landfill (15 million tons) in January 2016, at which point the current landfill disposal agreement will terminate. At that point, Recology will begin hauling and disposing of the City's refuse at its Hay Road landfill, near Vacaville, under a new landfill disposal agreement. That agreement also has a Reserve Fund requirement (\$10 million, to be built up over four years through a one percent surcharge on solid waste generated in San Francisco).

In its report, SFE recommends the following disposition of the current balance in the Special Reserve Fund:

- Transfer \$3.75 million to the new Reserve Fund to provide for the initial funding of the Reserve Fund until the surcharge (or other mechanism) is adopted through a future rate proceeding;
- Transfer \$12 million to the new Reserve Fund. One expected use of this portion of the new Reserve Fund will be to cover the incremental cost of hauling and disposing of City waste at the Hay Road landfill for the next 18 months. Recology anticipates submitting a rate application in the fall of 2016 for new rates to go into effect in July 2017, which will include the full cost of transportation and disposal under the new landfill contract.; and

- Retain \$13.85 million (the balance) in the existing Special Reserve Fund until the Rate Board determines there is no need for the Fund, at which time the remaining monies must be used to the benefit of ratepayers. Transfer of monies to the new Reserve Fund to achieve the \$10 million funding level would be one such use.

The proposed uses of the Special Reserve Fund are consistent with Facilitation Agreement, and any disbursements would continue to be made pursuant to the procedures included in the Director's Report on the 2013 Rate Application.

Future Rate Board Proceedings

I believe the attached reports fulfill the requests of the Rate Board, and respectfully request that the Rate Board reconvene at your earliest convenience to consider them. In particular, with respect to the AMC Program report, I request that the Rate Board adopt a finding that the program has increased diversion in a cost-effective manner, which, as provided in the Rate Board's Resolution and Order, will have the effect of continuing the AMC Program beyond June 30, 2016, at the same rates as in the pilot program, subject to any adjustments authorized in the Rate Orders. If the Rate Board does not adopt such findings by December 31, 2015, inclusion of costs for the AMC Program in the residential rates shall terminate, effective July 1, 2016.

With respect to the Special Reserve Fund report, I request that the Rate Board direct that the Special Reserve Fund be redistributed according to the recommendations of the Department of the Environment. Both of these reports have been posted on DPW's web site and distributed to interested parties.

Thank you in advance for your consideration of these items. If you have any questions, please do not hesitate to contact Julia Dawson, Deputy Director of Finance and Administration (Public Works), at (415) 554-4831, or Jack Macy, Zero Waste Senior Coordinator (SFE), at (415) 355-3751. I look forward to attending the continuation of the Rate Board meeting.

Sincerely,



Mohammed Nuru, Director

cc: Deborah Raphael, Director, San Francisco Department of the Environment
Mark Arsenault, Vice President and Group Manager, Recology San Francisco

Thomas Owen, Deputy City Attorney
Brad Russi, Deputy City Attorney
Peter M. Deibler, 2013 Ratepayer Advocate

Attachments:

Abandoned Materials Collection Program Report
Special Reserve Fund Report