



# SPECIAL BOARD OF DIRECTORS MEETING BOARD/TAC STUDY SESSION

THURSDAY, October 15, 2020 AT 2:00pm  
VIA ZOOM MEETING ONLY

Link to Join:

<https://us02web.zoom.us/j/84320960792?pwd=R29ZN21qUGVJUklYZWV0SnhOeXJNdz09>

Phone number for voice access: 1 (669) 900 9128

Meeting ID: 843 2096 0792

Passcode: 035940

PURSUANT TO GOVERNOR NEWSOM'S EXECUTIVE ORDER N-29-20, THE MEETING WILL BE HELD BY TELECONFERENCE AND/OR VIDEO CONFERENCE ONLY. THE PUBLIC MAY PARTICIPATE BY JOINING THE ZOOM MEETING

<https://us02web.zoom.us/j/84320960792?pwd=R29ZN21qUGVJUklYZWV0SnhOeXJNdz09>

AND SUBMITTING THEIR PUBLIC COMMENTS IN A LIVE MEETING FORMAT. ANY EMAILS SENT TO [RETHINKER@RETHINKWASTE.ORG](mailto:RETHINKER@RETHINKWASTE.ORG) WILL BE PROVIDED TO THE BOARD CHAIR PRIOR TO THE MEETING.

## TELECONFERENCE PARTICIPANTS

ALL BOARD MEMBERS WILL PARTICIPATE BY TELECONFERENCE AND/OR VIDEO CONFERENCE PURSUANT TO GOVERNOR NEWSOM'S EXECUTIVE ORDER N-25-20

PURSUANT TO RALPH M. BROWN ACT, GOVERNMENT CODE SECTION 54953, ALL VOTES SHALL BE BY ROLL CALL DUE TO ALL BOARD MEMBERS PARTICIPATING BY TELECONFERENCE AND/OR VIDEO CONFERENCE

ANY REQUEST FOR REASONABLE ACCOMMODATION SHOULD BE ADDRESSED TO CYNDI URMAN AT [CURMAN@RETHINKWASTE.ORG](mailto:CURMAN@RETHINKWASTE.ORG).

## AGENDA

1. Roll Call
2. Public Comment  
Pursuant to Government Code Section 54954.3(a), members of the public wishing to address the Board may do so, and the comments shall be limited to the Special Meeting notice topic(s). Speakers may join the Zoom meeting via the meeting link and using the "raise hand" feature and the Board Chair or Clerk of the Board will call on members of the public to comment.
3. Executive Director's Report (*Verbal Only*) p. 3
4. Consent Calendar  
No Items
5. Collection and Recycling Program Support and Compliance  
A. Resolution Approving SBWMA Amended Final Report Reviewing the 2021 Recology San Mateo County Compensation Application (Continued from September 24, 2020 Meeting) ACTION p. 7
6. Adjourn Special Board Meeting
7. Roll Call – Board/TAC Study Session
8. SB 1383 Compliance Planning Update p. 45
  - Presentations by CalRecycle and HF&H Consulting

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### MEMBER AGENCIES

ATHERTON \* BELMONT \* BURLINGAME \* EAST PALO ALTO \* FOSTER CITY \* HILLSBOROUGH \* MENLO PARK \* REDWOOD CITY  
\* SAN CARLOS \* SAN MATEO \* COUNTY OF SAN MATEO \* WEST BAY SANITARY DISTRICT

- 9. Review of the Draft CY 2021 Operating Budget and Capital Expenditures p. 109
- 10. Discussion on PG&E EV Fleet Subsidy Grant Program Request p. 137
- 11. Board Member/TAC Member Comments
- 12. Adjourn

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MEMBER AGENCIES

ATHERTON \* BELMONT \* BURLINGAME \* EAST PALO ALTO \* FOSTER CITY \* HILLSBOROUGH \* MENLO PARK \* REDWOOD CITY  
\* SAN CARLOS \* SAN MATEO \* COUNTY OF SAN MATEO \* WEST BAY SANITARY DISTRICT



## STAFF REPORT

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**To:** SBWMA Board Members  
**From:** Joe La Mariana, Executive Director  
John Mangini, Senior Finance Manager  
**Date:** October 15, 2020 Board of Directors Meeting  
**Subject:** Resolution Approving SBWMA Amended Final Report Reviewing the 2021 Recology San Mateo County Compensation Application (Continued from September 24, 2020 Meeting)

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### Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2020-37 attached hereto authorizing the following action:

Approval of SBWMA's Amended Final Report Reviewing the 2021 Recology San Mateo County (Recology) Compensation Application (**Exhibit A** – Amended Final Report) which delineates the recommended base Total Contractor's Compensation due to Recology for 2021 of \$65,662,841.

### Summary

The Recology Compensation Application for 2021 has been thoroughly reviewed by SBWMA staff to ensure that the proscribed process as delineated in the Collection Agreement is being followed, and for mathematical and formulaic accuracy. The result is a recommended 10.3% increase in Recology's compensation for 2021.

### Background

A Final Report was presented to the SBWMA Board for approval at its September 24<sup>th</sup> BOD Meeting. After reviewing the Final Report, the Board continued this item until the October 15<sup>th</sup> Special Board Meeting in order to allow staff to respond to three issues raised at the September Board Meeting. The three issues are addressed below in this staff report and changes associated with those issues are reflected in the Amended Final Report (Exhibit A). The September 24<sup>th</sup> Staff Report with a full description of the annual compensation process and all applicable tables and calculations is also attached for the Board's reference as **Attachment B**.

### Analysis

Based on the work done by staff to address the three issues raised by the Board on September 24, 2020, staff is recommending two additional adjustments to Recology's 2021 Compensation Application. The two adjustments have been accounted for in this Staff recommended base Total Contractor's Compensation due to Recology for 2021 of \$65,662,841.

**Issue One: County of San Mateo (Recommendation: Approve)** The County of San Mateo identified three customer accounts that had been moved to other Member Agency's book of accounts. Although the accounts had been moved, due to the rolling three year average compensation process in the Amended and Restated Franchise Agreements, costs for these services continued to fall within the County of San Mateo's compensation to Recology, while the revenue generated from these accounts went to other Member Agencies.

After the September 24<sup>th</sup> meeting, SBWMA staff met with representatives from the County and Recology to discuss the matter. The parties agreed to address this issue by reallocating Recology's compensation for these accounts to the Member Agency receiving the revenue. This re-allocation has been reviewed and approved by the impacted Member Agencies and results in an increase to the City of San Mateo's compensation to Recology in the amount of \$6,012 and an increase to the City of Menlo Park in the amount of \$2,004. The County of San Mateo's compensation to Recology is reduced by \$8016. The changes have no impact on Recology's total compensation and are reflected at the bottom of **Table 6** of the Amended Final Report.

**Issue Two: City of Belmont (Recommendation: Approve).** At the September Board Meeting, the City of Belmont indicated that the calculated Total Revenue Requirement in **Attachment A - Table 8** was not a true representation of the City's cost obligation, as the City has a unique compensation methodology. After the September Board Meeting, SBWMA staff met with representatives from the City of Belmont and Recology to discuss this issue. The parties agreed to present Belmont's unique total revenue requirement proposal issued to Belmont by Recology within the Amended Final Report document and **Table 8**. These changes are reflected in this Staff Report and the Amended Final Report. The changes can also be found at the bottom of **Table 6** of the Amended Final Report.

**Issue Three: Recology (Recommendation: Deny).** On September 8, 2020, Recology sent a letter to SBWMA stating that it believes their compensation numbers should be adjusted in the event the Town of Atherton withdraws from the JPA. This letter was received after the Compensation Application had been comprehensively reviewed by staff and the Final Compensation Adjustment Report had been prepared. Per the Franchise Agreement (Attachment K, paragraph 6), Recology's 2021 Compensation Adjustment Application was due and properly submitted on June 15<sup>th</sup>, 2020. This application and all supporting documents are required to include all of Recology's projected costs and cost adjustments for the defined adjustment period, in this case from December 1, 2021 through December 31, 2021. There were no costs included on this topic, nor was there any mention of this issue in these documents. During the September 24<sup>th</sup> hearing on the Compensation Application, Board members expressed concern and confusion about the letter, and requested further clarification which is provided below.

SBWMA was formed contractually as a joint powers agency under the provisions of the California Government Code that allow public agencies to jointly exercise common powers to achieve efficiency and economy in service delivery. Its authority and function is governed by the terms of the Joint Powers Agreement (JPA), as is each Member's participation in the agency. The JPA contains specific language to address a Member's withdrawal, and a mechanism for doing so that protects the interests of the remaining Members. JPA Section 15.1 provides that a Member may not withdraw until it has:

1. Given 6-month notice,
2. Liquidated its portion of any existing financial obligations as of the date of withdrawal, and
3. Received approval to withdraw from 4/5 of the other Member Agencies.

The Town of Atherton chose not to sign the Restated and Amended Franchise Agreement with Recology, and to go through the JPA process to withdraw from SBWMA, effective December 31, 2020. On August 20, 2020, the SBWMA Board determined that Atherton is required to pay approximately \$2.2 Million to liquidate its proportional share of liabilities prior to exiting on December 31, 2020. This amount would fully defease Atherton's share of both the 2019A and B bonds. As the Board considered and determined these exit costs, it was advised that HF&H Consultants had determined there were no other non-bond related financial obligations attributable to Atherton per Article 15.1(b) to the JPA which requires a withdrawing Member to liquidate in full "its proportion of any and all existing debts, obligations and liabilities incurred, earned, or expected to be earned by the date of withdrawal." At

a meeting held on September 16, 2020, the Town Council of Atherton agreed to pay the liquidation costs determined by the Board, and voted to go forward with its withdrawal. While the Board has recommended to the Member Agencies that they approve Atherton's request to withdraw, provided they pay the above referenced costs prior to December 31, 2020, the withdrawal will not be effective unless and until 9 more of the Member Agencies have approved it. Atherton is currently in the process of seeking approval from the remaining Member Agencies.

Meanwhile, the process for calculating Recology's annual compensation, in accordance with the franchise agreements, was proceeding at the same time. The 2021 Compensation Application submitted by Recology in June includes Atherton in its calculations because Atherton is currently a Member Agency, and, in the event it does not withdraw, its obligations need to be calculated. Although Recology was aware that Atherton was pursuing withdrawal, it did not request any alternative compensation calculation in the event Atherton did withdraw when it submitted its June 15, 2020 application; nor did it raise the issue when staff reviewed the application and met with Recology to prepare the 2021 Compensation Report.

In the September 8<sup>th</sup> letter, Recology notified SBWMA for the first time that it believes that if Atherton does withdraw from the JPA, the remaining Member Agencies should be responsible for a portion of Atherton's share of the compensation: the Allocated Indirect Costs, including profit, assigned to Atherton in the Compensation Application, which Recology states equal \$386,451 per year. Over the 15-year life of the newly restated and amended Franchise Agreement's term (January 1, 2021 through December 31, 2035), this amount equates to \$5,796,765. Recology requested that this amount be proportionally reallocated amongst the remaining Members each year based on the methodology used to determine their proportionate share of indirect costs. Under this method, according to Recology, percentage changes to the remaining Members resulting from the reallocation would range from 0.24% to 0.56% per year. (the Recology letter is attached as Appendix D.)<sup>1</sup>

**Analysis:** Staff has reviewed Recology's letter and the model franchise agreement, and does not agree that the franchise agreement requires the remaining Members to assume Atherton's Allocated Indirect Costs in the event Atherton withdraws. Each Member Agency has a separate franchise agreement with Recology, which, under its terms, became binding and effective between the Member Agency and Recology as of the date two-thirds (8) of the Member Agencies approved and signed the agreement. The individual franchise agreements between Recology and the Member Agencies provide the mechanism for calculating what each Member Agency owes; there is no contractual language in these agreements requiring one Member Agency to compensate Recology for another Member Agency's failure to meet its compensation amount, or to assume the obligations that a withdrawn Member Agency may have had to Recology had it not withdrawn.

The Amended Final Report assigns an individualized total compensation amount due to Recology from each Member Agency, which yields the overall total compensation to Recology. According to the Amended Final Report, the recommended total Recology compensation for 2021 is \$65,662,841; Atherton's assigned portion of that total is \$1,612,762. (See Table 8, Amended Final Report) If Atherton completes its withdrawal from SBWMA, Recology would no longer provide services to Atherton, and as a result, that part of Recology's total compensation attributable to Atherton would be rendered null and void, and the compensation amount would be reduced to \$64,050,079 without the need for further action by the Board or the Member Agencies. Accordingly, Staff is

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<sup>1</sup> When SBWMA received Recology's letter, it asked its financial consultant, HF&H Consultants, to review Recology's calculations. HF&H again confirmed that the franchise agreements do not obligate Member Agencies to assume these costs and, even if the franchise agreements did provide for that, then the actual number would be \$124,661 excluding profit (The analysis is included in the Amended Final Report as **Appendix E**). This analysis is provided for informational purposes only; as the remaining Member Agencies do not have a contractual obligation to pay these costs.

advising against the Board approving the reallocation of Atherton's share of indirect cost to the remaining Members, in the event Atherton withdraws, because it is not provided for in the individual franchise agreements between the Member Agencies and Recology.

**Conclusion**

After applying the two aforementioned adjustments Staff's recommended base Total Contractor's Compensation due to Recology for 2021 is \$65,662,841. Recology's 2021 compensation is compared to 2020 in **Table 1** below.

**Table 1**

Total Contractor's Compensation	Recology Compensation			
	2020 Cost	2021 Cost	Change	%
Base Compensation	\$59,494,689	\$65,510,101	\$6,015,412	10.1%
Incentives / Disincentives	\$26,535	\$152,739	\$ 126,204	475.6%
<b>Total Contractor's Compensation</b>	<b>\$59,521,224</b>	<b>\$65,662,841</b>	<b>\$6,141,617</b>	<b>10.3%</b>

**Attachments:**

**Resolution 2020-37**

**Exhibit A** – SBWMA Amended Final Report Reviewing the 2021 Recology San Mateo County Compensation.

- [Exhibit A Part II - Appendices to the Amended Final Report are available online only at www.rethinkwaste.org](http://www.rethinkwaste.org)

**Attachment A – Table 8** (from the October 8, 2020 SBWMA Amended Final Report Reviewing the 2021 Recology San Mateo County Compensation Application).

**Attachment B** – September 24<sup>th</sup> Staff Report on the Final Report Reviewing the 2021 Recology San Mateo County Compensation Application

**Attachment C** – Recology Letter, September 8, 2020



## **RESOLUTION NO. 2020-37**

### **RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING THE RECOLOGY SAN MATEO COUNTY 2021 COMPENSATION APPLICATION AND THE AMENDED FINAL SBWMA REPORT**

**WHEREAS**, pursuant to the Amended and Restated Franchise Agreements between Recology San Mateo County ("Recology") and SBWMA Member Agencies, Recology is required to submit an Annual Compensation Application to SBWMA by June 15 of each year; SBWMA is then required to review the Application for accuracy and consistency with compensation procedures and issue a Draft Report for review and comment on or before September 1 of each year. After the ten-day comment period following issuance of the Draft Report, SBWMA shall prepare a Final Report on the Compensation to be considered by the SBWMA Board of Directors on or before October 1 of each year; and,

**WHEREAS**, pursuant to the compensation adjustment procedures, Recology submitted its 2021 Annual Compensation Application to the SBWMA on June 15, 2020, and SBWMA prepared and issued, on August 10, 2020, the Draft Report Reviewing the 2021 Recology Compensation Application. The Member Agencies were given ten days, until August 27, 2020, to submit any comments on the Draft Report back to the SBWMA, and the Draft Report was reviewed by the Technical Advisory Committee during its September 10, 2020 meeting. The Draft Report was revised based on the feedback received from the Member Agencies and TAC, and the Final Report was issued to the Board on September 18, 2020, for the Board's consideration at the September 24, 2020 Board of Director's meeting; and

**WHEREAS**, the Board considered the Final Report at its September 24<sup>th</sup> meeting, but did not take action at that time; rather, it continued the item until the October 15<sup>th</sup> Special Board Meeting in response to issues raised at the hearing; and,

**WHEREAS**, at the October 15<sup>th</sup> continued hearing on the Compensation Application, Staff presented an Amended Final Report addressing the issues raised at the September 24<sup>th</sup> hearing; and,

**WHEREAS**, The Amended Final Report recommends a 10.3% increase in the total contractor's compensation when compared to the 2020 compensation approved by the SBWMA Board of Director's on September 26, 2019 per Resolution No. 2019-51. The total 2021 Recology contractor's compensation is \$65,662,841; and

**WHEREAS**, the Board considered the Amended Final Report and the information and comments presented during the October 15, 2020 hearing on the item.

**NOW, THEREFORE BE IT RESOLVED** that the South Bayside Waste Management Authority hereby approves:

1. The SBWMA Amended Final Report Reviewing the 2021 Recology San Mateo County Compensation

Application.

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the **15th** day of **October, 2020**, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist.				

I HEREBY CERTIFY that the foregoing Resolution No. 2020-37 was duly and regularly adopted at a duly noticed special meeting of the South Bayside Waste Management Authority on October 15, 2020.

ATTEST:

\_\_\_\_\_  
Jess E (Jay) Benton, Chairperson of SBWMA

\_\_\_\_\_  
Cyndi Urman, Board Secretary





**SBWMA **AMENDED FINAL** REPORT  
REVIEWING THE 2021 RECOLOGY SAN  
MATEO COUNTY  
COMPENSATION APPLICATION**

October 8<sup>th</sup>, 2020  
(Amended from the report issued on September 17, 2020)

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## APPENDICES

[APPENDIX A – Recology 2021 revised Compensation Application Issued on July 17, 2020. Revised from version submitted on June 15 \(Part I\)](#)

[APPENDIX B – SBWMA Questions and Comments on Recology 2021 Compensation Application Issued June 29, 2020 \(with Recology’s Responses Submitted on July 17, 2020\)](#)

[APPENDIX C](#) – [Intentionally Omitted; see Section 4.C]

[APPENDIX D – Recology’s Letter dated September 8, 2020](#)

[APPENDIX E – HF&H’s analysis allocating Atherton’s indirect cost utilizing the compensation adjustment methodology prescribed in Article 11, Attachment K of the Amended and Restated Franchise Agreement](#)

## **SECTION 1 EXECUTIVE SUMMARY**

### **1.A Summary**

The South Bayside Waste Management Authority (SBWMA/RethinkWaste) is required to review the Recology San Mateo County (Recology) 2021 Compensation Application (Application) for completeness, accuracy and consistency as prescribed in the Restated and Amended Franchise Agreements between the SBWMA Member Agencies and Recology. The Application is to document the results of Recology following the prescribed compensation adjustment process detailed in Article 11, and Attachments K and N of the Member Agency Restated and Amended Franchise Agreements. Specifically for contract year 11 (2021), this process includes applying the change in the fuel index to the approved 2017 fuel compensation to arrive at the 2021 fuel compensation, applying a Service Level Adjustment (SLA) to the 2021 compensation specific to each Member Agencies and adding the prior year's revenue reconciliation balances. Service Level Adjustment (SLA) is further described in Section 1.D Recology Service Level Adjustment Process by Member Agency.

This Amended Final Report provides the results of SBWMA's review of Recology's 2021 Application and the critical analysis by the SBWMA of all components that make-up the total revenue requirement for Member Agencies to set solid waste rates. The total revenue requirement is the total cost of service including Recology compensation, disposal and processing costs, Member Agency fees, and prior years surplus/shortfalls owed to/from Recology.

The SBWMA provides the total rate impact for each Member Agency (see **Table 8 on pages 15 and 16**) and recommended rate adjustment for 2021, which consolidates all the projected revenue and cost components associated with the solid waste rate setting process by Member Agency.

### **1.B Compensation Application Process and Issuance of SBWMA Report**

The 2021 Recology Compensation Application was submitted to the SBWMA and Member Agencies on June 15, 2020. On June 29, 2020 the SBWMA submitted questions and comments to Recology. One question was submitted by a Member Agency. On July 17, 2020 Recology submitted a revised 2021 Compensation Application and responses to the SBWMA's questions and comments. **Appendix A** provides Recology's revised July 17 version of its 2021 Compensation Application. **Appendix B** provides the SBWMA's questions and comments to Recology's Compensation Application, and Recology's response submitted on July 19. The SBWMA provided all Member Agencies their detailed revenue, agency fees, and disposal and processing cost projections for 2021 on July 22nd. Staff is recommending an adjustment to Recology's revised Compensation Application related to the calculation of Service Level Adjustment reducing Recology's compensation by \$242,812, which is further described in Section 1.E Recommendation, below.

### **Additional Requested Adjustments to Recology's Compensation Application issued on July 17, 2020**

A Final Report was presented to the SBWMA Board for approval at its September 24<sup>th</sup> BOD Meeting. The Board continued this item until the October 15<sup>th</sup> Special Board Meeting in response to three additional issues raised at the hearing. Staff is recommending two additional adjustments to Recology's 2021 Compensation Application based on two of the issues raised, and against an adjustment based on the third.

**Issue One: County of San Mateo (Recommendation: Approve).** The County of San Mateo identified three customer accounts that had been moved to other Member Agency's book of accounts. Although the accounts had been moved, due to the rolling three year average compensation process in the Amended and Restated Franchise Agreements, costs for these services continued to fall within the County of San Mateo's compensation to Recology, while the revenue generated from these accounts went to other Member Agencies. After the September 24<sup>th</sup> meeting, the SBWMA met with the County and Recology to discuss the matter and decided to address it by reallocating Recology's compensation for these accounts to the Member Agencies receiving the revenue. This re-allocation has been reviewed and approved by the impacted Member Agencies and results in an increase to the City of San Mateo's compensation to Recology in the amount of \$6,012 and an increase to the City of Menlo Park in the amount of \$2,004. The County of San Mateo's compensation to Recology is reduced by \$8016. The changes have no impact on Recology's total compensation and are reflected at the bottom of **Table 6**.

**Issue Two: City of Belmont (Recommendation: Approve).** The City of Belmont raised an issue that the calculated Total Revenue Requirement in **Table 8** was not a true representation of the City's cost obligation, as the City has unique compensation methodology. The SBWMA met with the City of Belmont and Recology to discuss the issue and it was agreed to present Belmont's unique total revenue requirement proposal issued to Belmont by Recology of San Mateo within this document and **Table 8**. These changes are reflected in this Amended Final Report and in **Table 8** and **Table 6** of this document.

**Issue Three: Recology (Recommendation: Deny).** On September 8, 2020, Recology sent a letter to SBWMA stating that it believes the compensation numbers should be adjusted in the event the Town of Atherton withdraws from the JPA. This letter was sent after the Compensation Application had been reviewed by staff and the Compensation Report had been prepared. During the September 24<sup>th</sup> hearing on the Compensation Application, Board members expressed concern and confusion about the letter, and requested further clarification.

*Background:* The Town of Atherton has not signed the Restated and Amended Franchise Agreement with Recology, rather it is going through the JPA Agreement process to withdraw from membership in the Authority, effective December 31, 2020. According to the JPA, when a Member Agency withdraws from the JPA, it is required to pay its proportion of outstanding debt obligations up through the date of withdrawal. On August 20, 2020, the SBWMA Board determined that Atherton is required to pay approximately \$2.2 Million to liquidate its proportional share of liabilities prior to exiting on December 31, 2020. At a meeting held on September 16, 2020, the Town Council of Atherton agreed to pay the liquidation costs determined by the Board, and voted to go forward with the withdrawal. The next step in the withdrawal process is for Atherton to obtain the approval to withdraw from four-fifths (4/5) of the Member Agencies (which means approval by at least 9 of the remaining Members since Atherton has already consented). This must occur before December 31, 2020. While the Board has recommended to the Member Agencies that they approve Atherton's request to withdraw, provided they pay the above referenced costs prior to December 31, 2020, the withdrawal will not be effective unless and until 9 more of the Member Agencies have approved it.

The 2021 Compensation Application submitted by Recology and reviewed by staff includes Atherton in its calculations because Atherton is currently a Member Agency, and, in the event it does not withdraw and instead goes forward with Recology, its obligations need to be calculated. Although Recology was aware that Atherton was pursuing withdrawal, it did not request any alternative compensation calculation in the

event Atherton did withdraw when it submitted its June 15, 2020 application; nor did it raise the issue when staff reviewed the application and met with Recology to prepare the 2021 Compensation Report.

In the September 8<sup>th</sup> letter to SBWMA, Recology stated that if Atherton withdraws from the Authority, it believes the remaining Member Agencies should be responsible for a portion of Atherton's share of the compensation: the Allocated Indirect Costs, including profit, assigned to Atherton in the Compensation Application, which Recology states equal \$386,451 per year. Over the 15-year life of the newly restated and amended Franchise Agreement's term (January 1, 2021 through December 31, 2035), this amount equates to \$5,796,765. Recology would like this amount to be proportionally reallocated amongst the remaining Members each year based on the methodology used to determine their proportionate share of indirect costs. Under this method, according to Recology, percentage changes to the remaining Members resulting from the reallocation would range from 0.24% to 0.56% per year. (the Recology letter is attached as **Appendix D.**)<sup>1</sup>

*Analysis:* Staff has reviewed Recology's letter and the model franchise agreement, and does not agree that the agreement requires the remaining Members to assume Atherton's Allocated Indirect Costs in the event Atherton withdraws. Each Member Agency has a separate franchise agreement with Recology, which, under its terms, became binding and effective between the individual parties as of the date two-thirds (8) of the Member Agencies approved and signed the agreement. The individual franchise agreements between Recology and the Member Agencies provide the mechanism for calculating what each Member Agency owes; there is no contractual mechanism requiring one Member Agency to compensate Recology for another Member Agency's failure to meet that compensation amount, or to assume the obligations that a withdrawn Member Agency may have had to Recology had it not withdrawn.

The Amended Final Report assigns an individualized total compensation amount due to Recology from each Member Agency, which yields the overall total compensation to Recology. According to the Amended Final Report, the recommended total Recology compensation for 2021 is \$65,662,841; Atherton's assigned portion of that total is \$1,612,762. If Atherton completes its withdrawal from SBWMA, Recology would no longer provide services to Atherton, and as a result, that part of Recology's total compensation attributable to Atherton would be rendered null and void, and the compensation amount would be reduced to \$64,050,079 without the need for further action.

Staff is advising against the Board approving the reallocation of Atherton's share of indirect cost to the remaining Members, in the event Atherton withdraws, because it is outside the scope of the individual franchise obligations.

**Table 1** on the next page shows the complete schedule to review and comment on Recology's Compensation Application. This Amended **Final** Report provides the guidance for Member Agencies to adjust 2021 solid waste rates, if necessary.

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<sup>1</sup> When SBWMA received Recology's letter, it asked its financial consultant, HF&H Consultants, to review Recology's calculations. HF&H reviewed the numbers, and concluded they were overstated. That if the Member Agencies were to allow the re-apportionment requested by Recology, the actual number would be \$124,661 excluding profit (**See Appendix E**). This analysis is provided for informational purposes only; the remaining Member Agencies do not have an obligation to Recology to pick up Atherton's compensation.

**Table 1**  
**2020 Schedule to Approve Recology 2021 Compensation**

<b>Due Date</b>	<b>Milestone</b>
June 15, 2020	Recology 2021 Compensation Application Submitted to Member Agencies and SBWMA
June 29, 2020	Member Agencies and SBWMA Comments Due to Recology
July 17, 2020	Revised Recology 2021 Compensation Application Submitted to Member Agencies and SBWMA
August 10, 2020	SBWMA Draft Report Reviewing the 2021 Recology Compensation Application Issued to Member Agencies
August 27, 2020	Member Agencies Written Comments on SBWMA Draft Report Due to SBWMA
September 10, 2020	SBWMA TAC Meeting: Staff Update and Discussion
September 17, 2020	SBWMA Final Report Issued to Member Agencies/Board
September 24, 2020	SBWMA Board Meeting: Consideration of Final Report
<b>October 15, 2020</b>	<b>SBWMA Board Meeting: Consideration of Amended Final Report</b>

**1.C Summary of Notable Items in the 2021 Recology Compensation Application**

Notable items included in the 2021 Recology Compensation Application include:

- Application of the New Recology Restated and Amended Agreement compensation increase methodology, which is based on CPI indices and service levels. Fuel index is the only index applicable to the 2021 compensation increase per each Member Agency’s Restated and Amended Franchise Agreements.
- 2019 revenue reconciliation of surplus/shortfall and interest payments due to/from Recology (Table H in Recology Application).
- Performance Incentive/Disincentive payment to Recology of \$152,739, excluding Belmont (Table F in Recology Application).
- Overall, 10.3% Total Compensation increase including a fuel index decrease of 18.1%

**1.D NEW CHANGE in 2021: Recology Service Level Adjustment by Member Agency**

The annual compensation adjustment process to Member Agencies is prescribed in Article 11 and Attachment K of the Restated and Amended Franchise Agreements. Attachment K explains the detailed process and specific rules used to adjust the various cost categories and the allocation of costs to the Member Agencies. The tables that comprise Attachment N are used to calculate the specific cost adjustments prescribed in Attachment K.

The 2021 Recology Compensation Application adjusts Attachment N costs by applying the April 2016 to April 2020 change for CPI-U Motor Fuel index to the Direct Fuel Costs. No other index-based adjustments are called for 2021.

Next, service level adjustments are applied to: Direct Labor Related Costs; Direct Fuel Costs; and Other Direct Costs. For Rate Year 2021, the Single-Family lines of business service level adjustments are 75% of the percentage change in the rolling three-year average number of Solid Waste accounts in each Member Agency. In Rate Year 2021, 75% of the change in service levels for Commercial lines of business, lifts

shall be used rather than accounts; and, for Drop Box lines of business, pulls shall be used rather than accounts.

Per section 7.12 of the Franchise Agreements, Recology conducted its Annual Route Assessment over a four week period in 2020. The assessment is intended to annually confirm and update Recology's data related to customer accounts, service levels and operations, including, but not limited to: (1) number of Accounts, (2) Bin and Cart lifts, and (3) Drop Box pulls to be used as the basis for the rolling three-year Service Level Adjustment. Recology submitted its 2021 Compensation Adjustment Application using the Assessment four week period from February/March (for commercial lifts) rather than the usual four week period from April/May due to the San Mateo County shelter-in-place order. The SBWMA questioned this change citing that February/March was not a reasonable representation of the go forward economic conditions. In response, Recology suggested using the four week period from June/July for the Annual Route Assessment, reasoning that this period is more representative of the go forward conditions rather than the lockdown period of shelter-in-place during April/May. The SBWMA concurred with this reasoning and is recommending Recology's 2021 Compensation utilizing the June/July Route Assessment period for the commercial lifts Service Level Adjustment, which reduces Recology's 2021 compensation by \$242,812 from the Recology 2021 Compensation Application submitted to the SBWMA on July 17, 2020.

**Recommendation**

Based on the net results of the cost adjustments calculated in the 2021 Recology Compensation Application, SBWMA is recommending that the Board approve an adjustment to Recology's 2021 compensation as delineated in **Table 2** below. **Table 2** summarizes the adjusted 2021 costs and changes from 2020. The total change in Recology's compensation for 2021 is an increase of \$6,141,617 or 10.3% from 2020.

**Please note that this service cost adjustment (increase) has been known since the conclusion of the 2017 Franchise Agreement negotiations and throughout the member agency approval process of the Restated and Amended Agreement between Recology and 11 agencies (excluding the Town of Atherton). During multiple SBWMA Board and Finance Committee meetings held between May 2017 and 2020, SBWMA strongly advised SBWMA member agencies to adjust their rate residential and commercial rates to build reserves to mitigate the impact to their ratepayers.**

**Table 2**  
**Summary of Adjusted 2020 Costs to 2021 Costs**

RECOLOGY COMPENSATION SUMMARY	2020 Cost	2021 Cost	\$ Change	% Change
Total Annual Cost of Operations	\$ 54,129,196	\$ 58,250,248	\$ 4,121,052	7.6%
Profit	5,682,070	6,114,667	432,597	7.6%
Operating Ratio	90.5%	90.5%		
<b>Total Operating Costs</b>	<b>\$ 59,811,266</b>	<b>\$ 64,364,915</b>	<b>\$ 4,553,649</b>	<b>7.6%</b>
<b>Contractor Pass-Through Costs</b>				
Interest Expense <sup>1</sup>	\$ 224,430	\$ 1,145,186	\$ 920,756	410.3%
Interest Expense on Implementation Cost	7,109	-	(7,109)	-100.0%
Contract Changes to Specific Agencies <sup>2</sup>	(548,116)	-	548,116	-100.0%
<b>Total Contractor Pass-Through Costs</b>	<b>\$ (316,577)</b>	<b>\$ 1,145,186</b>	<b>\$ 1,461,763</b>	<b>-461.7%</b>
<b>BASE CONTRACTOR'S COMPENSATION</b>	<b>\$ 59,494,689</b>	<b>\$ 65,510,101</b>	<b>\$ 6,015,412</b>	<b>10.1%</b>
<b>Other Adjustments</b>				
Performance Incentives / Disincentives	\$ 26,535	\$ 152,739	\$ 126,204	-475.6%
<b>Total Other Adjustments</b>	<b>\$ 26,535</b>	<b>\$ 152,739</b>	<b>\$ 126,204</b>	<b>-475.6%</b>
<b>TOTAL CONTRACTOR'S COMPENSATION</b>	<b>\$ 59,521,224</b>	<b>\$ 65,662,841</b>	<b>\$ 6,141,617</b>	<b>10.3%</b>
<sup>1</sup> Interest expense is per the negotiated Restated and Amended Franchise Agreements <sup>2</sup> Contract changes to specific agencies are not necessary with the Restated and Amended Franchise Agreements.				



## **SECTION 2 BACKGROUND**

### **2.A Franchise Agreement Terms**

Eleven of the twelve SBWMA Member Agency Agreements use the same methodology to calculate the compensation owed to Recology. One Member Agency (i.e., City of Belmont) uses a different compensation methodology; however, using this different methodology has no bearing on the costs (compensation) or services provided to the other eleven Member Agencies.

The compensation adjustment methodology is detailed in Article 11, Attachment K and Attachment N in the Member Agency Restated and Amended Franchise Agreements. Article 11 describes the methodology and process by which the compensation adjustment process shall be implemented. Attachment K provides more detail on this process and how costs (compensation) will be allocated amongst the Member Agencies.

#### *Cost Adjustment Process*

Attachment K, Table 1 of the Restated and Amended Franchise Agreements prescribes a detailed process to adjust Recology's costs during the full fifteen-year term of the Restated and Amended Franchise Agreements. A flowchart in Recology's Compensation Application (see table D of Appendix A) illustrates graphically the cost adjustment process that is conducted each year. Cost adjustments are based primarily on changes in US DOL indices and service levels.

#### *First Year of Restated and Amended Franchise Agreement 15-Year Term (Rate Year 11)*

This 2021 Contractor's Compensation Application (to be known as *Rate Year 11*)—will utilize a revised approach to each Member Agency's compensation to Recology from the cost allocation methodology used in the prior ten year Franchise Agreements (*Rate years 2 – 10*), as negotiated during the Restated and Amended Franchise Agreement process that was completed on the Member Agencies behalf in 2018.

The 2021 Recology Compensation Application adjusts Attachment N costs by applying the April 2016 to April 2020 change for CPI-U Motor Fuel index to the Direct Fuel Costs. No other index-based adjustments are called for in 2021.

Service level adjustments are applied to: Direct Labor Related Costs; Direct Fuel Costs; and Other Direct Costs. For Rate Year 2021, the Single-Family lines of business service level adjustments are 75% of the percentage change in the rolling three-year average number of Solid Waste accounts in each Member Agency. In Rate Year 2021, 75% of the change in service levels for Commercial lines of business, lifts shall be used rather than accounts; and, for Drop Box lines of business, pulls shall be used rather than accounts.

As previously stated at many Board and TAC meetings during the past few years, Staff strongly recommend that each Member Agency continue to build its rate stabilization funds to help offset the step up in base costs between rate year 2020 (reflected in this document) and rate year 2021. The step up for each Member Agency is the delta between Recology approved 2020 compensation and Attachment N of each Member Agency's Restated and Amended Contract, including the new Service Level Adjustment factor and Fuel Adjustment factor. As in the past, Staff is available to assist SBWMA TAC members to facilitate their transition into rate year 11.

## **2.B Annual Revenue Reconciliation**

For rate years 2012 through 2021 there is an annual revenue reconciliation process to determine the net revenue Recology retained versus the amount actually owed to the company. The calculation compares the approximately **\$113.7** million gross revenue billed, less contractor paid pass-through expenses for Member Agency fees and disposal and processing expense at the Shoreway facility (owned by SBWMA/RethinkWaste), versus the approved contractor's compensation. This revenue reconciliation process results in a surplus or shortfall owed to/from Recology by Member Agency. This surplus or shortfall will be added to or subtracted from the Recology's compensation for the subsequent rate year (in this case for 2021).

The Recology 2019 Revenue Reconciliation Report was submitted to the SBWMA and Member Agencies on March 31, 2020. Staff reviewed this 2019 Revenue Reconciliation Report and contracted an independent firm (i.e., R3 Consultants), to thoroughly review it, which included validating the accuracy of the results by Member Agency. On June 25, 2020 the Board reviewed agenda item 7B which included the audit findings and results (i.e., final 2019 surplus/shortfall and interest) of the revenue reconciliation that will be added to or subtracted from Recology's 2021 compensation. Agencies can also request a refund of surplus balances or make payments to Recology for shortfalls. The final 2019 Revenue Reconciliation balances, net of payments, have been included in Recology's 2021 Compensation Application (see Table H). A payment to the Town Atherton for their surplus is not included in Recology's Compensation Application, as the request and payment occurred subsequent to Recology's final submission.

## **2.C Review of Compensation Application by SBWMA for Accuracy and Completeness and Issuance of Final Report**

The Franchise Agreements state that the SBWMA is responsible for annually conducting a review and analysis of Recology's Compensation Application. SBWMA staff conducts a thorough review of the data, calculations, index adjustments, and the service level adjustment calculation. This review is used to prepare the analysis contained in this report including any changes and adjustments to Recology's compensation. Recology is obligated to promptly provide to the SBWMA any missing information, explanations and agreed changes upon request during the Compensation Application review process. Recology submitted a revised Compensation Application on July 17 based on staff comments. The questions and comments submitted to the company during the initial review period in June are provided in **Appendix B**.

## **SECTION 3 2021 RECOLOGY COMPENSATION APPLICATION**

### **3.A Description of Compensation Adjustments**

The 2021 Recology Compensation Application is based on each Member Agency's base compensation in their specific Restated and Amended Franchise Agreements, adjusting for the motor fuel index and service level adjustment as previously described to arrive at the 2021 compensation by cost category. In the Compensation Application, the term "cost" really refers to "compensation." Please note this does not mean Recology's "true" costs. The SBWMA moved from a "cost plus" compensation model to a "fixed price plus index adjustment" compensation methodology with the Recology contract that started on January 1, 2011. The Restated and Amended Franchise Agreements, starting January 1, 2021, includes the service level compensation adjustment and index compensation adjustment.

The Franchise Agreements with Recology also provide for additional compensation adjustments for special issues related to performance incentive/disincentive payments (and liquidated damages).

**Recology Annual Revenue Reconciliation Report for 2019.** Recology submitted a Revenue Reconciliation Report for 2019 to the SBWMA on March 31, 2020 which compares the approved compensation owed to Recology for 2019 with the actual net funds retained by Recology after paying for pass-through costs for disposal and processing at Shoreway and Agency fees (e.g., Franchise Fees) paid to each Member Agency. The SBWMA thoroughly reviews this Report and it is audited by an independent third party firm (i.e., R3 Consultants). The audit results are then provided to the Board for consideration and approval. Each Member Agency annually generates a surplus or shortfall which is added to or subtracted from the next year's Revenue Requirement. The 2019 surplus balance including interest is \$3,346,982 due from Recology after the payment from the City of Burlingame for their 2019 shortfall and payment to the Town of Atherton for their 2019 surplus. The balance due from Recology can be found B.1 on **Table 8**.

**Performance Incentive/Disincentive Payments (and Liquidated Damages).** Recology reported the 2019 Performance Incentives/Disincentives and Liquidated Damages calculations which was reviewed and approved by the SBWMA and R3 Consulting. The total annual Recology recycling diversion incentive payment from 2011 to 2019 are as follows:

- 2011 - \$913,060 (diversion incentive payment to Recology)
- 2012 - \$489,164 (diversion incentive payment to Recology)
- 2013 - \$257,650 (diversion incentive payment to Recology)
- 2014 - \$42,217 (diversion incentive payment to Recology)
- 2015 - (\$14,215) (diversion disincentive payment to the Member Agencies)
- 2016 - \$175,789 (diversion incentive payment to Recology)
- 2017 - \$155,789 (diversion incentive payment to Recology)
- 2018 - \$59,830 (diversion incentive payment to Recology)
- 2019 - \$168,964 (diversion incentive payment to Recology)

Recology's 2019 diversion incentive payment is \$168,964 excluding Belmont. The diversion incentive payment is offset by Performance penalties. The net amount owed to Recology and added to Recology's 2021 compensation is \$152,739 excluding Belmont (Table F in Recology's Application Appendix A).

### **3.B Adjustment of 2020 Compensation to 2021**

As prescribed in Article 11, Attachment K and Attachment N of the Restated and Amended Franchise Agreements, the adjustment of the 2020 compensation to 2021 compensation is predominantly based on each Member Agency's negotiated 2021 compensation, which is further adjusted by the fuel index and service level adjustment.

**Table 3** on the following page provides the detailed results from making all compensation adjustments from 2020 to 2021. The application of all adjustment factors to the Amended and Restated negotiated base Recology compensation results in an overall increase in Recology's base 2021 compensation totaling

\$6,015,413 or 10.1% from 2020. Performance Incentive (and Liquidated Damages) payments increased by \$126,204. The result is a net increase in total contractor's compensation of \$6,141,617 or 10.3 % for 2021 from 2020. Please refer to **Table 3** on the next page.

**Table 3**  
**Results of Adjustments of 2020 Costs to 2021 Costs**

RECOLOGY COMPENSATION DETAIL	2020 Cost	2021 Cost	% of Total Cost	\$ Change	% Change
<b>Annual Cost of Operations</b>					
Direct Labor-Related Costs					
Wages	\$ 18,115,147	\$ 19,730,377	30.0%	\$ 1,615,230	8.9%
Benefits	7,209,876	\$ 9,125,376	13.9%	1,915,500	26.6%
Payroll Taxes	1,507,180	\$ 1,641,568	2.5%	134,388	8.9%
Workers Compensation Insurance	1,572,090	\$ 1,405,724	2.1%	(166,366)	-10.6%
<b>Total Direct Labor Related-Costs</b>	<b>\$ 28,404,293</b>	<b>\$ 31,903,045</b>	<b>48.6%</b>	<b>\$ 3,498,752</b>	<b>12.3%</b>
Direct Fuel Costs	3,219,672	\$ 2,602,180	4.0%	(617,492)	-19.2%
Other Direct Costs	2,285,286	\$ 2,963,535	4.5%	678,248	29.7%
Depreciation					
- Collection Vehicles	4,092,539	\$ 3,056,022	4.7%	(1,036,517)	-25.3%
- Containers	1,882,550	\$ 1,178,150	1.8%	(704,400)	-37.4%
<b>Total Depreciation</b>	<b>\$ 5,975,088</b>	<b>\$ 4,234,172</b>	<b>6.4%</b>	<b>\$ (1,740,917)</b>	<b>-29.1%</b>
Allocated Indirect Costs excluding Depreciation					
General and Administrative	\$ 7,762,589	\$ 9,456,605	14.4%	\$ 1,694,015	21.8%
Adjustment for Waste Zero Specialists	(209,612)	\$ -	0.0%	209,612	
Operations	1,944,364	\$ 1,928,415	2.9%	(15,950)	-0.8%
Vehicle Maintenance	3,365,043	\$ 3,685,657	5.6%	320,614	9.5%
Container Maintenance	1,145,129	\$ 1,358,992	2.1%	213,863	18.7%
<b>Total Allocated Indirect Costs excluding Depreciation</b>	<b>\$ 14,007,513</b>	<b>\$ 16,429,668</b>	<b>25.0%</b>	<b>\$ 2,422,155</b>	<b>17.3%</b>
Total Allocated Indirect Depreciation Costs	50,168	\$ 117,650	0.2%	67,482	134.5%
Annual Implementation Cost Amortization	187,175	\$ -	0.0%	(187,175)	-100.0%
<b>Total Annual Cost of Operations</b>	<b>\$ 54,129,196</b>	<b>\$ 58,250,249</b>	<b>88.7%</b>	<b>\$ 4,121,053</b>	<b>7.6%</b>
<b>Profit</b>	<b>5,682,070</b>	<b>6,114,667</b>	<b>9.3%</b>	<b>432,597</b>	<b>7.6%</b>
<b>Operating Ratio</b>	<b>90.5%</b>	<b>90.5%</b>			
<b>Total Operating Costs</b>	<b>\$ 59,811,266</b>	<b>\$ 64,364,916</b>	<b>98.0%</b>	<b>\$ 4,553,650</b>	<b>7.6%</b>
<b>Contractor Pass-Through Costs</b>					
Interest Expense	\$ 224,430	\$ 1,145,186	1.7%	\$ 920,756	410.3%
Interest Expense on Implementation Cost	7,109	\$ -	0.0%	(7,109)	-100.0%
Contract Changes to Specific Agencies	(548,116)	\$ -	0.0%	548,116	-100.0%
<b>Total Contractor Pass-Through Costs</b>	<b>(316,577)</b>	<b>1,145,186</b>	<b>1.7%</b>	<b>1,461,763</b>	<b>-461.7%</b>
<b>BASE CONTRACTOR'S COMPENSATION</b>	<b>\$ 59,494,689</b>	<b>\$ 65,510,102</b>	<b>99.8%</b>	<b>\$ 6,015,413</b>	<b>10.1%</b>
<b>Other Adjustments</b>					
Performance Incentives / Disincentives	26,535	\$ 152,739	0.2%	126,204	-475.6%
<b>Total Other Adjustments</b>	<b>26,535</b>	<b>152,739</b>	<b>0.2%</b>	<b>126,204</b>	<b>-475.6%</b>
<b>TOTAL CONTRACTOR'S COMPENSATION</b>	<b>\$ 59,521,224</b>	<b>\$ 65,662,841</b>	<b>100.0%</b>	<b>\$ 6,141,617</b>	<b>10.3%</b>

**Table 4** below denotes the total cost adjustment from the Restated and Amended Franchise Agreements Negotiated 2021 Base Compensation to each Member Agency by adjustment factor as prescribed in the Restated and Amended Franchise Agreements. The 2021 Service Level Adjustment utilizes a three-year rolling average comparing 2014, 2015, 2016 data to 2018, 2019, 2020 data.

**Table 4  
Results of Cost Adjustments**

2021 Total by Member Agency **	Negotiated 2021 Base Compensation	CPI Increases	CPI % Increase	Service Level Adjustment Increases	SLA % Increase	Total Compensation Including CPI + SLA	Total % Increase
Atherton	\$1,593,158	\$14,808	0.9	\$2,886	0.2	\$1,610,853	1.1
Burlingame	\$6,286,129	\$49,449	0.8	\$59,585	0.9	\$6,395,164	1.7
East Palo Alto	\$2,726,530	\$22,597	0.8	\$23,218	0.9	\$2,772,345	1.7
Foster City	\$3,907,631	\$32,269	0.8	\$12,337	0.3	\$3,952,237	1.1
Hillsborough	\$2,021,219	\$18,809	0.9	\$7,276	0.4	\$2,047,304	1.3
Menlo Park	\$6,608,325	\$56,357	0.9	\$213,971	3.2	\$6,878,654	4.1
Redwood City	\$11,458,072	\$93,842	0.8	\$116,111	1.0	\$11,668,025	1.8
San Carlos	\$5,766,877	\$48,324	0.8	\$79,645	1.4	\$5,894,847	2.2
San Mateo	\$14,255,139	\$114,864	0.8	\$222,825	1.6	\$14,592,828	2.4
West Bay Sanitary Dist	\$1,083,844	\$9,419	0.9	\$13,245	1.2	\$1,106,508	2.1
Unincorporated County	\$2,436,377	\$20,607	0.8	\$11,240	0.5	\$2,468,225	1.3
North Fair Oaks	\$1,977,205	\$16,560	0.8	\$24,213	1.2	\$2,017,978	2.1
<b>Total SBWMA *</b>	<b>\$64,225,644</b>	<b>\$531,608</b>	<b>0.8</b>	<b>\$857,676</b>	<b>1.3</b>	<b>\$65,614,928</b>	<b>2.2</b>
* Excludes Incentive/Disincentive							
** Excludes the City of Belmont							

**3.C Recommended Adjustment to Recology’s Compensation for 2021**

Based on the net results of the compensation adjustments previously described and the analysis of the 2021 Recology Compensation Application, SBWMA is recommending that the SBWMA Board approve an adjustment to Recology's 2021 compensation as delineated in **Table 5 – Comparison of 2020 and 2021 Compensation**. The total adjustment to Recology's contractor’s compensation is a 10.3% increase.

**Table 5  
Comparison of 2020 and 2021 Compensation**

RECOLOGY COMPENSATION SUMMARY	2020 Cost	2021 Cost	\$ Change	% Change
<b>Total Annual Cost of Operations</b>	\$ 54,129,196	\$ 58,250,248	\$ 4,121,052	7.6%
<b>Profit</b>	5,682,070	6,114,667	432,597	7.6%
<b>Operating Ratio</b>	90.5%	90.5%		
<b>Total Operating Costs</b>	\$ 59,811,266	\$ 64,364,915	\$ 4,553,649	7.6%
<b>Contractor Pass-Through Costs</b>				
Interest Expense <sup>1</sup>	\$ 224,430	\$ 1,145,186	\$ 920,756	410.3%
Interest Expense on Implementation Cost	7,109	-	(7,109)	-100.0%
Contract Changes to Specific Agencies <sup>2</sup>	(548,116)	-	548,116	-100.0%
<b>Total Contractor Pass-Through Costs</b>	\$ (316,577)	\$ 1,145,186	\$ 1,461,763	-461.7%
<b>BASE CONTRACTOR'S COMPENSATION</b>	\$ 59,494,689	\$ 65,510,101	\$ 6,015,412	10.1%
<b>Other Adjustments</b>				
Performance Incentives / Disincentives	\$ 26,535	\$ 152,739	\$ 126,204	-475.6%
<b>Total Other Adjustments</b>	\$ 26,535	\$ 152,739	\$ 126,204	-475.6%
<b>TOTAL CONTRACTOR'S COMPENSATION</b>	\$ 59,521,224	\$ 65,662,841	\$ 6,141,617	10.3%
<sup>1</sup> Interest expense is per the negotiated Restated and Amended Franchise Agreements				
<sup>2</sup> Contract changes to specific agencies are not necessary with the Restated and Amended Franchise Agreements.				

### 3.D Recology Cost Allocation Process by Member Agency

Cost allocations by Member Agency have been abolished in the Restated and Amended Franchise Agreements.

### 3.E Recology's Total Compensation by Member Agency

The Contractors Total Compensation by Member Agency is provided in **Table 6 – Member Agency Cost**. The cost by line of business (Residential, Commercial/MFD and Agency Facility) for each Member Agency is found in Recology's Compensation Application as Appendix 3.

**Table 6 – Member Agency Cost**

	Compensation 2021	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	County Franchised Area
<b>Annual Cost of Operations</b>														
Direct Labor-Related Costs														
Wages for CBAs	\$19,730,377	\$495,931	\$1,256,552	\$1,983,283	\$792,546	\$1,171,317	\$624,871	\$2,042,775	\$622,976	\$3,495,553	\$1,729,382	\$4,452,185	\$330,532	\$732,473
Benefits for CBAs	\$9,125,376	\$232,883	\$584,394	\$901,051	\$370,846	\$541,002	\$295,027	\$931,296	\$291,119	\$1,621,351	\$796,489	\$2,058,834	\$154,844	\$346,240
Payroll Taxes	\$1,641,568	\$41,261	\$104,545	\$165,009	\$65,940	\$97,454	\$51,989	\$169,959	\$51,832	\$290,830	\$143,885	\$370,422	\$27,500	\$60,942
Workers Compensation Insurance	\$1,405,724	\$35,333	\$89,525	\$141,302	\$56,466	\$83,453	\$44,520	\$145,541	\$44,385	\$249,046	\$123,213	\$317,204	\$23,549	\$52,186
Total Direct Labor Related-Costs	\$31,903,045	\$805,409	\$2,035,016	\$3,190,645	\$1,285,799	\$1,893,225	\$1,016,407	\$3,289,571	\$1,010,312	\$5,656,780	\$2,792,970	\$7,198,645	\$536,426	\$1,191,841
Direct Fuel Costs	\$2,602,180	\$71,905	\$132,595	\$244,349	\$111,045	\$157,241	\$91,514	\$288,126	\$81,929	\$462,565	\$240,178	\$573,387	\$46,611	\$100,736
Other Direct Costs	\$2,963,535	\$77,971	\$183,886	\$284,274	\$123,609	\$176,569	\$98,835	\$327,568	\$91,136	\$521,728	\$269,459	\$647,820	\$50,850	\$109,831
Depreciation														
- Collection Vehicles	\$3,056,022	\$87,984	\$193,109	\$286,736	\$127,419	\$184,198	\$110,471	\$332,265	\$92,641	\$535,114	\$280,194	\$653,693	\$54,173	\$118,023
- Containers	\$1,178,150	\$36,671	\$77,090	\$102,553	\$52,636	\$73,460	\$37,043	\$113,697	\$36,566	\$209,708	\$105,767	\$258,681	\$22,873	\$51,406
Total Depreciation	\$4,234,172	124,655	270,198	389,289	180,055	257,658	147,514	445,962	129,207	744,823	385,960	912,374	77,046	169,429
Allocated Indirect Costs														
General and Administrative	\$9,456,605	\$147,775	\$580,446	\$891,820	\$465,831	\$585,320	\$221,524	\$986,272	\$278,558	\$1,765,927	\$898,901	\$2,131,046	\$148,491	\$354,695
Operations	\$1,928,415	\$57,092	\$122,058	\$188,494	\$78,967	\$119,502	\$70,740	\$210,986	\$55,200	\$330,481	\$177,843	\$408,907	\$34,487	\$73,658
Vehicle Maintenance	\$3,685,657	\$109,117	\$233,281	\$360,256	\$150,924	\$228,397	\$135,202	\$403,246	\$105,500	\$631,627	\$339,900	\$781,516	\$65,913	\$140,777
Container Maintenance	\$1,358,992	\$32,288	\$84,436	\$128,796	\$63,993	\$87,764	\$33,804	\$148,992	\$39,159	\$242,090	\$123,731	\$302,771	\$21,729	\$49,440
Total Allocated Indirect Costs	\$16,429,668	\$346,272	\$1,020,221	\$1,569,366	\$759,715	\$1,020,982	\$461,270	\$1,749,496	\$478,418	\$2,970,124	\$1,540,374	\$3,624,240	\$270,620	\$618,570
Total Allocated Indirect Depreciation Costs	\$117,650	\$3,466	\$7,409	\$11,716	\$4,851	\$7,246	\$4,301	\$12,856	\$3,323	\$20,229	\$10,754	\$24,940	\$2,084	\$4,476
Annual Implementation Cost Amortization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Annual Cost of Operations</b>	<b>\$58,250,249</b>	<b>1,429,678</b>	<b>3,649,326</b>	<b>5,689,638</b>	<b>2,465,072</b>	<b>3,512,921</b>	<b>1,819,840</b>	<b>6,113,580</b>	<b>1,794,325</b>	<b>10,376,249</b>	<b>5,239,695</b>	<b>12,981,405</b>	<b>983,637</b>	<b>2,194,883</b>
<b>Profit</b>	<b>\$6,114,667</b>	<b>\$150,077</b>	<b>\$383,078</b>	<b>\$597,255</b>	<b>\$258,764</b>	<b>\$368,760</b>	<b>\$191,033</b>	<b>\$641,757</b>	<b>\$188,355</b>	<b>\$1,089,220</b>	<b>\$550,023</b>	<b>\$1,362,689</b>	<b>\$103,255</b>	<b>\$230,402</b>
<b>Operating Ratio</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>	<b>90.5%</b>
<b>Total Operating Cost</b>	<b>\$64,364,916</b>	<b>\$1,579,755</b>	<b>\$4,032,404</b>	<b>\$6,286,893</b>	<b>\$2,723,837</b>	<b>\$3,881,681</b>	<b>\$2,010,873</b>	<b>\$6,755,337</b>	<b>\$1,982,680</b>	<b>\$11,465,469</b>	<b>\$5,789,718</b>	<b>\$14,344,094</b>	<b>\$1,086,891</b>	<b>\$2,425,286</b>
Contractor Pass-Through Costs														
Interest Expense	\$1,145,186	\$31,098	\$72,732	\$108,271	\$48,509	\$70,556	\$36,431	\$123,317	\$35,298	\$202,557	\$105,128	\$248,734	\$19,617	\$42,939
<b>BASE CONTRACTOR'S COMPENSATION</b>	<b>\$65,510,102</b>	<b>\$1,610,853</b>	<b>\$4,105,136</b>	<b>\$6,395,164</b>	<b>\$2,772,345</b>	<b>\$3,952,237</b>	<b>\$2,047,304</b>	<b>\$6,878,654</b>	<b>\$2,017,978</b>	<b>\$11,668,025</b>	<b>\$5,894,847</b>	<b>\$14,592,828</b>	<b>\$1,106,508</b>	<b>\$2,468,225</b>
Incentives and Disincentives	\$152,739	\$1,909	\$0	\$22,082	\$10,351	\$9,115	\$2,273	\$15,547	\$5,248	\$33,039	\$11,235	\$37,165	\$1,302	\$3,472
<b>Total Contractor Adjustments</b>	<b>\$152,739</b>	<b>\$1,909</b>	<b>\$0</b>	<b>\$22,082</b>	<b>\$10,351</b>	<b>\$9,115</b>	<b>\$2,273</b>	<b>\$15,547</b>	<b>\$5,248</b>	<b>\$33,039</b>	<b>\$11,235</b>	<b>\$37,165</b>	<b>\$1,302</b>	<b>\$3,472</b>
<b>TOTAL CONTRACTOR'S COMPENSATION</b>	<b>\$65,662,841</b>	<b>\$1,612,762</b>	<b>\$4,105,136</b>	<b>\$6,417,246</b>	<b>\$2,782,697</b>	<b>\$3,961,352</b>	<b>\$2,049,577</b>	<b>\$6,894,201</b>	<b>\$2,023,225</b>	<b>\$11,701,064</b>	<b>\$5,906,082</b>	<b>\$14,629,993</b>	<b>\$1,107,810</b>	<b>\$2,471,697</b>
Prior Year's Surplus/Shortfall to/from Recology														
Revenue Reconciliation 2019 (Surplus)/Shortfall	(\$3,346,982)	(\$117,154)	\$0	\$0	(\$57,124)	(\$148,378)	(\$307,175)	(\$309,418)	(\$186,576)	(\$117,943)	(\$163,382)	(\$1,382,278)	(\$136,383)	(\$421,171)
Interest on 2019 (Surplus)/Shortfall	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Sub-Total</b>	<b>(\$3,346,982)</b>	<b>(\$117,154)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$57,124)</b>	<b>(\$148,378)</b>	<b>(\$307,175)</b>	<b>(\$309,418)</b>	<b>(\$186,576)</b>	<b>(\$117,943)</b>	<b>(\$163,382)</b>	<b>(\$1,382,278)</b>	<b>(\$136,383)</b>	<b>(\$421,171)</b>
<b>TOTAL BALANCE TO CONTRACTOR 2021</b>	<b>\$62,315,859</b>	<b>\$1,495,608</b>	<b>\$4,105,136</b>	<b>\$6,417,246</b>	<b>\$2,725,573</b>	<b>\$3,812,974</b>	<b>\$1,742,402</b>	<b>\$6,584,783</b>	<b>\$1,836,649</b>	<b>\$11,583,121</b>	<b>\$5,742,700</b>	<b>\$13,247,715</b>	<b>\$971,427</b>	<b>\$2,050,526</b>
Before Parks Adjustment														
<b>TOTAL CONTRACTOR'S COMPENSATION</b>	<b>\$65,774,515</b>	<b>\$1,612,762</b>	<b>\$4,216,811</b>	<b>\$6,417,246</b>	<b>\$2,782,697</b>	<b>\$3,961,352</b>	<b>\$2,049,577</b>	<b>\$6,892,197</b>	<b>\$2,023,225</b>	<b>\$11,701,064</b>	<b>\$5,906,082</b>	<b>\$14,623,981</b>	<b>\$1,107,810</b>	<b>\$2,479,713</b>
Difference	(\$111,674)	\$0	(\$111,674)	\$0	\$0	\$0	\$0	\$2,004	\$0	\$0	\$0	\$6,012	\$0	(\$8,016)

## **SECTION 4 2021 MEMBER AGENCY REVENUE REQUIREMENT OBLIGATIONS**

### **4.A Components of Member Agency Revenue Requirement**

The compensation to Recology for 2021 collection service is only one of several components that make up the total collection cost (i.e., revenue requirement) reflected in the Member Agency's solid waste collection rates. In addition to the Recology compensation for collection service, there are pass-through costs (discussed below) that are also included in the Member Agency's Revenue Requirement (see **Table 8 – Total Collection Rate Adjustment**).

### **4.B Pass-Through Costs**

The pass-through costs are the following:

1. Disposal and processing expense – Disposal and processing expenses are based on projected tonnage and estimated 2021 tip fees at the Shoreway Environmental Center. Tonnage assumptions were provided to Member Agencies on July 23 for review.
2. Franchise fee – Franchise and other Member Agency fees and programs. Fee assumptions used for 2021 were provided by Member Agencies on July 23.

### **4.C Cost Variance from 2020 to 2021**

The Cost Variance Analysis (Table 7) has been excluded from this Amended Final Report, as the analysis does not provide a true representation of the rate impact due to the City of Belmont's unique compensation methodology.

#### **Table 7 Recology and Other Pass-Through Costs Variance and Rate Adjustment**

The Cost Variance Analysis (Table 7) has been excluded from this Amended Final Report, as the analysis does not provide a true representation of the rate impact due to the City of Belmont's unique compensation methodology.



#### 4.D Total Recommended Rate Adjustment

The SBWMA is responsible for compiling all the components that make up the recommended rate adjustment for 2021 and are summarized in **Table 8**. The amounts shown in Table 8 reflect estimated balances at December 31, 2021 before any 2021 Member Agency solid waste rate adjustments are applied. The purpose of this table is to assist Member Agencies with determining their rate adjustment(s) for 2021. The Total Rate Adjustment Percentage (line **F.3**) is derived from comparing the 2021 base revenue at 2020 rates on line **A.1** to the total cumulative revenue requirement (line **F.1**) which in total results in a shortfall balance (line **F.2**) and the recommended rate adjustment (line **F.3**). All prior year's surplus/shortfall balances are net of payments to/from Member Agencies and Recology. The following provides an explanation of the sections in **Table 8**.

- **Section A** – This section provides the estimated 2021 Collection Revenue using 2020 rates (**A.1**), the 2021 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2021 Revenue Requirement (**A.7**), the estimated 2021 Surplus/Shortfall balance with Recology (**A.8**), Agency Fees on shortfalls (**A.9**), and the Rate Adjustment Percentage (**A.10**). *The overall SBWMA rate adjustment is a 4.3% increase; however, each Member Agency has a different adjustment percentage.*
- **Section B** – This section provides the results of the 2019 Recology Revenue Reconciliation surplus/shortfall, including 2017 close out, that must be added to the 2021 rate adjustment.
- **Section C** – This section provides the 2021 Required Rate Adjustment which is the sum of sections A and B.
- **Section D** – This section provides the “2020 Estimated Surplus/Shortfall” balance with Recology (**D.1**), the final 2018 surplus/shortfall (**D.2**) and the associated Agency Fees on any net estimated shortfall (**D.4**).
- **Section E** – This section includes an adjustment for Belmont’s unique agreement with Recology.
- **Section F** – This section provides the “Cumulative Revenue Requirement” (**F.1**) and the cumulative surplus (**F.2**) which includes the results of Sections C, D and E.
- **The overall SBWMA recommended rate adjustment is on line (F.3). Each Member Agency is obligated to set rates to generate its respective revenue needed as denoted in Section F.**

**Table 8 – Total Collection Rate Adjustment (Part 1 of 2)**

SBWMA									
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY									
as of 10/08/2020									
2021 Rate Year									
	Total	Atherton	Belmont *	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park	
<b>A. 2021 RATE YEAR</b>									
A.1	2021 Collection Revenue @ 2020 Rates	\$113,603,581	\$3,219,879	\$7,403,489	\$11,257,983	\$5,382,492	\$6,360,355	\$3,221,054	\$12,078,104
A.2	Total Recology Compensation	\$65,662,841	\$1,612,762	\$4,105,136	\$6,417,246	\$2,782,697	\$3,961,352	\$2,049,577	\$6,894,201
A.3	Pass-Through Costs								
A.4	Disposal & Processing Fees	\$36,415,179	\$1,328,073	\$1,732,663	\$3,621,810	\$2,231,632	\$2,168,526	\$1,200,434	\$3,976,267
A.5	Agency Franchise Fees	\$16,152,520	\$331,060	\$2,051,120	\$1,874,459	\$642,907	\$402,221	\$295,220	\$2,007,410
A.6	Total Pass-Through Costs	\$52,567,700	\$1,659,133	\$3,783,783	\$5,496,270	\$2,874,539	\$2,570,747	\$1,495,654	\$5,983,677
A.7	2021 Revenue Requirement	\$118,230,540	\$3,271,895	\$7,888,919	\$11,913,516	\$5,657,235	\$6,532,098	\$3,545,231	\$12,877,877
A.8	2021 Estimated Rate Adjustment from 2020 Rates (A.1 - A.7)	(\$4,626,959)	(\$52,016)	(\$485,430)	(\$655,533)	(\$274,743)	(\$171,743)	(\$324,178)	(\$799,774)
A.9	Agency Fees on A.8	(\$405,999)	(\$5,202)		(\$91,775)	(\$26,232)	(\$8,587)	(\$32,418)	(\$108,769)
A.10	Rate Adjustment Percentage (Associated with 2021 estimated Surplus/Shortfall)	4.7%	1.8%	6.6%	6.6%	5.6%	2.8%	11.1%	7.5%
<i>See Appendix D - Rate Variance Analysis for detail.</i>									
<b>B. 2019 Final Surplus/(Shortfall)</b>									
B.1	Surplus/(Shortfall) 2019 FINAL (incl. Interest)	\$3,229,828				\$57,124	\$148,378	\$307,175	\$309,418
B.2	Agency Fees on B.1 Shortfall								
B.3	Rate Adjustment Percentage (Associated with 2019 Final Surplus/Shortfall)	-3.0%				-1.1%	-2.3%	-9.5%	-2.6%
<b>C. 2021 REQUIRED REVENUE ADJUSTMENT</b>									
(\$1,803,131)									
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$115,406,712	\$3,277,096	\$7,888,919	\$12,005,290	\$5,626,344	\$6,392,308	\$3,270,474	\$12,677,229
C.2	Subtotal Estimated Rate Adjustment (A.1 - C.1)	(\$1,803,131)	(\$57,218)	(\$485,430)	(\$747,308)	(\$243,852)	(\$31,952)	(\$49,420)	(\$599,125)
C.3	Rate Adjustment Percentage (C.2 / A.1)	1.6%	1.8%		6.6%	4.5%	0.5%	1.5%	5.0%
<b>D. 2020 Estimated Surplus/(Shortfall)</b>									
D.1	Surplus/(Shortfall), 2020 estimated	\$4,627,302	\$387,665		\$267,765	\$11,226	\$293,681	(\$261,605)	(\$61,622)
D.2	Surplus/(Shortfall) 2018 FINAL (incl. Interest)	\$1,843,371				\$118,513	\$188,516	\$512,679	\$317,600
D.3	Net Estimated 2020 Surplus/Shortfall	\$6,470,673	\$387,665		\$267,765	\$129,739	\$482,197	\$251,074	\$255,978
D.4	Agency Fees on D.3 Estimated Shortfall								
D.5	Rate Adjustment Percentage (Associated with 2020 Estimated Surplus/Shortfall)	-6.1%	-12.0%		-2.4%	-2.4%	-7.6%	-7.8%	-2.1%
<b>E. Adjustments</b>									
E.1	Miscellaneous Adjustment/Payment								
<b>F. TOTAL RATE IMPACT</b>									
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$108,936,039	\$2,889,431	\$7,888,919	\$11,737,526	\$5,496,605	\$5,910,110	\$3,019,399	\$12,421,251
F.2	Total Estimated Rate Adjustment (A.1 - F.1)	\$4,667,542	\$330,447	(\$485,430)	(\$479,543)	(\$114,112)	\$450,245	\$201,654	(\$343,147)
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-4.1%	-10.3%	6.6%	4.3%	2.1%	-7.1%	-6.3%	2.8%
* Proposed contractor compensation and rates are per Article 11 of Belmont's Franchise Agreement, as are 2020 and 2021 Estimated Revenue Requirements									

**Table 8 – Total Collection Rate Adjustment (Part 2 of 2)**

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
as of 10/08/2020		2021 Rate Year					
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total	
<b>A. 2021 RATE YEAR</b>							
A.1	2021 Collection Revenue @ 2020 Rates	\$3,238,839	\$21,386,468	\$9,299,907	\$25,365,787	\$1,771,433	\$3,617,793
A.2	Total Recology Compensation	\$2,023,225	\$11,701,064	\$5,906,082	\$14,629,993	\$1,107,810	\$2,471,697
A.3	Pass-Through Costs						
A.4	Disposal & Processing Fees	\$1,141,053	\$6,820,322	\$2,713,626	\$7,793,420	\$545,437	\$1,141,918
A.5	Agency Franchise Fees	\$151,112	\$2,975,656	\$1,238,935	\$3,909,796	\$101,430	\$171,193
A.6	Total Pass-Through Costs	\$1,292,165	\$9,795,978	\$3,952,561	\$11,703,215	\$646,867	\$1,313,111
A.7	2021 Revenue Requirement	\$3,315,390	\$21,497,042	\$9,858,643	\$26,333,209	\$1,754,676	\$3,784,808
A.8	2021 Estimated Rate Adjustment from 2020 Rates (A.1 - A.7)	(\$76,551)	(\$110,574)	(\$558,736)	(\$967,421)	\$16,756	(\$167,015)
A.9	Agency Fees on A.8 Shortfall	(\$3,828)	(\$15,093)	(\$67,048)	(\$38,697)		(\$8,351)
A.10	Rate Adjustment Percentage (Associated with 2018 estimated Surplus/Shortfall)	2.5%	0.6%	6.7%	4.0%	-0.9%	4.8%
<i>See Appendix D - Rate Variance Analysis for detail.</i>							
<b>B. 2019 Final Surplus/(Shortfall)</b>							
B.1	Surplus/(Shortfall) 2019 FINAL (incl. Interest)	\$186,576	\$117,943	\$163,382	\$1,382,278	\$136,383	\$421,171
B.2	Agency Fees on B.1 Shortfall						
B.3	Rate Adjustment Percentage (Associated with 2019 Final Surplus/Shortfall)	-5.8%	-0.6%	-1.8%	-5.4%	-7.7%	-11.6%
<b>C. 2021 REQUIRED REVENUE ADJUSTMENT</b>							
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$3,132,642	\$21,394,193	\$9,762,309	\$24,989,627	\$1,618,293	\$3,371,988
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	\$106,197	(\$7,725)	(\$462,403)	\$376,160	\$153,139	\$245,805
C.3	Rate Adjustment Percentage (C.2 / A.1)	-3.3%	0.0%	5.0%	-1.5%	-8.6%	-6.8%
<b>D. 2020 Estimated Surplus/(Shortfall)</b>							
D.1	Surplus/(Shortfall), 2020 estimated	\$295,802	\$1,773,735	\$371,047	\$1,325,197	\$147,320	\$77,092
D.2	Surplus/(Shortfall) 2018 FINAL (incl. Interest)	\$170,430	(\$68,556)	\$489,857	\$10,639	\$86,117	\$17,576
D.3	Net Estimated 2020 Surplus/Shortfall	\$466,232	\$1,705,179	\$860,904	\$1,335,836	\$233,437	\$94,668
D.4	Agency Fees on D.3 Estimated Shortfall						
D.5	Rate Adjustment Percentage (Associated with 2020 Estimated Surplus/Shortfall)	-14.4%	-8.0%	-9.3%	-5.3%	-13.2%	-2.6%
<b>E. Adjustments</b>							
E.1	Miscellaneous Adjustment/Payment						
<b>F. TOTAL RATE IMPACT</b>							
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$2,666,410	\$19,689,014	\$8,901,405	\$23,653,792	\$1,384,856	\$3,277,320
F.2	Total Estimated Rate Adjustment (A.1 - F.1)	\$572,429	\$1,697,454	\$398,502	\$1,711,995	\$386,576	\$340,472
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-17.7%	-7.9%	-4.3%	-6.7%	-21.8%	-9.4%

October 8,

## **SECTION 5 CONCLUSION**

The SBWMA's review of the 2021 Recology Compensation Application results in the recommendation to increase the 2021 compensation to Recology (i.e., Total Contractor's Compensation) by 10.3% from the approved 2020 compensation, as provided in **Tables 2, 3, 5, 6, and 8** of this Amended **Final** Report, and Tables A, B and E in Recology's Application.

The Member Agency detail report can be found in the Recology Application – Section 4, Attachment N: Cost Adjustment Calculations in Total and by Member Agency.

SBWMA									
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY									
as of 10/08/2020									
2021 Rate Year									
	Total	Atherton	Belmont *	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park	
<b>A. 2021 RATE YEAR</b>									
A.1	2021 Collection Revenue @ 2020 Rates	\$113,603,581	\$3,219,879	\$7,403,489	\$11,257,983	\$5,382,492	\$6,360,355	\$3,221,054	\$12,078,104
A.2	Total Recology Compensation	\$65,662,841	\$1,612,762	\$4,105,136	\$6,417,246	\$2,782,697	\$3,961,352	\$2,049,577	\$6,894,201
A.3	Pass-Through Costs								
A.4	Disposal & Processing Fees	\$36,415,179	\$1,328,073	\$1,732,663	\$3,621,810	\$2,231,632	\$2,168,526	\$1,200,434	\$3,976,267
A.5	Agency Franchise Fees	\$16,152,520	\$331,060	\$2,051,120	\$1,874,459	\$642,907	\$402,221	\$295,220	\$2,007,410
A.6	Total Pass-Through Costs	\$52,567,700	\$1,659,133	\$3,783,783	\$5,496,270	\$2,874,539	\$2,570,747	\$1,495,654	\$5,983,677
A.7	2021 Revenue Requirement	\$118,230,540	\$3,271,895	\$7,888,919	\$11,913,516	\$5,657,235	\$6,532,098	\$3,545,231	\$12,877,877
A.8	2021 Estimated Rate Adjustment from 2020 Rates (A.1 - A.7)	(\$4,626,959)	(\$52,016)	(\$485,430)	(\$655,533)	(\$274,743)	(\$171,743)	(\$324,178)	(\$799,774)
A.9	Agency Fees on A.8	(\$405,999)	(\$5,202)		(\$91,775)	(\$26,232)	(\$8,587)	(\$32,418)	(\$108,769)
A.10	Rate Adjustment Percentage (Associated with 2021 estimated Surplus/Shortfall)	4.7%	1.8%	6.6%	6.6%	5.6%	2.8%	11.1%	7.5%
<i>See Appendix D - Rate Variance Analysis for detail.</i>									
<b>B. 2019 Final Surplus/(Shortfall)</b>									
B.1	Surplus/(Shortfall) 2019 FINAL (incl. Interest)	\$3,229,828				\$57,124	\$148,378	\$307,175	\$309,418
B.2	Agency Fees on B.1 Shortfall								
B.3	Rate Adjustment Percentage (Associated with 2019 Final Surplus/Shortfall)	-3.0%				-1.1%	-2.3%	-9.5%	-2.6%
<b>C. 2021 REQUIRED REVENUE ADJUSTMENT</b>									
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	(\$1,803,131)							
C.2	Subtotal Estimated Rate Adjustment (A.1 - C.1)	\$115,406,712	\$3,277,096	\$7,888,919	\$12,005,290	\$5,626,344	\$6,392,308	\$3,270,474	\$12,677,229
C.3	Rate Adjustment Percentage (C.2 / A.1)	(\$1,803,131)	(\$57,218)	(\$485,430)	(\$747,308)	(\$243,852)	(\$31,952)	(\$49,420)	(\$599,125)
C.3	Rate Adjustment Percentage (C.2 / A.1)	1.6%	1.8%	6.6%	4.5%	0.5%	1.5%	5.0%	
<b>D. 2020 Estimated Surplus/(Shortfall)</b>									
D.1	Surplus/(Shortfall), 2020 estimated	\$4,627,302	\$387,665		\$267,765	\$11,226	\$293,681	(\$261,605)	(\$61,622)
D.2	Surplus/(Shortfall) 2018 FINAL (incl. Interest)	\$1,843,371				\$118,513	\$188,516	\$512,679	\$317,600
D.3	Net Estimated 2020 Surplus/Shortfall	\$6,470,673	\$387,665		\$267,765	\$129,739	\$482,197	\$251,074	\$255,978
D.4	Agency Fees on D.3 Estimated Shortfall								
D.5	Rate Adjustment Percentage (Associated with 2020 Estimated Surplus/Shortfall)	-6.1%	-12.0%		-2.4%	-2.4%	-7.6%	-7.8%	-2.1%
<b>E. Adjustments</b>									
E.1	Miscellaneous Adjustment/Payment								
<b>F. TOTAL RATE IMPACT</b>									
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$108,936,039	\$2,889,431	\$7,888,919	\$11,737,526	\$5,496,605	\$5,910,110	\$3,019,399	\$12,421,251
F.2	Total Estimated Rate Adjustment (A.1 - F.1)	\$4,667,542	\$330,447	(\$485,430)	(\$479,543)	(\$114,112)	\$450,245	\$201,654	(\$343,147)
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-4.1%	-10.3%	6.6%	4.3%	2.1%	-7.1%	-6.3%	2.8%

\* Proposed contractor compensation and rates are per Article 11 of Belmont's Franchise Agreement, as are 2020 and 2021 Estimated Revenue Requirements

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
as of 10/08/2020				2021 Rate Year			
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total	
<b>A. 2021 RATE YEAR</b>							
A.1	2021 Collection Revenue @ 2020 Rates	\$3,238,839	\$21,386,468	\$9,299,907	\$25,365,787	\$1,771,433	\$3,617,793
A.2	Total Recology Compensation	\$2,023,225	\$11,701,064	\$5,906,082	\$14,629,993	\$1,107,810	\$2,471,697
A.3	Pass-Through Costs						
A.4	Disposal & Processing Fees	\$1,141,053	\$6,820,322	\$2,713,626	\$7,793,420	\$545,437	\$1,141,918
A.5	Agency Franchise Fees	\$151,112	\$2,975,656	\$1,238,935	\$3,909,796	\$101,430	\$171,193
A.6	Total Pass-Through Costs	\$1,292,165	\$9,795,978	\$3,952,561	\$11,703,215	\$646,867	\$1,313,111
A.7	2021 Revenue Requirement	\$3,315,390	\$21,497,042	\$9,858,643	\$26,333,209	\$1,754,676	\$3,784,808
A.8	2021 Estimated Rate Adjustment from 2020 Rates (A.1 - A.7)	(\$76,551)	(\$110,574)	(\$558,736)	(\$967,421)	\$16,756	(\$167,015)
A.9	Agency Fees on A.8 Shortfall	(\$3,828)	(\$15,093)	(\$67,048)	(\$38,697)		(\$8,351)
A.10	Rate Adjustment Percentage (Associated with 2018 estimated Surplus/Shortfall)	2.5%	0.6%	6.7%	4.0%	-0.9%	4.8%
<i>See Appendix D - Rate Variance Analysis for detail.</i>							
<b>B. 2019 Final Surplus/(Shortfall)</b>							
B.1	Surplus/(Shortfall) 2019 FINAL (incl. Interest)	\$186,576	\$117,943	\$163,382	\$1,382,278	\$136,383	\$421,171
B.2	Agency Fees on B.1 Shortfall						
B.3	Rate Adjustment Percentage (Associated with 2019 Final Surplus/Shortfall)	-5.8%	-0.6%	-1.8%	-5.4%	-7.7%	-11.6%
<b>C. 2021 REQUIRED REVENUE ADJUSTMENT</b>							
C.1	Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$3,132,642	\$21,394,193	\$9,762,309	\$24,989,627	\$1,618,293	\$3,371,988
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	\$106,197	(\$7,725)	(\$462,403)	\$376,160	\$153,139	\$245,805
C.3	Rate Adjustment Percentage (C.2 / A.1)	-3.3%	0.0%	5.0%	-1.5%	-8.6%	-6.8%
<b>D. 2020 Estimated Surplus/(Shortfall)</b>							
D.1	Surplus/(Shortfall), 2020 estimated	\$295,802	\$1,773,735	\$371,047	\$1,325,197	\$147,320	\$77,092
D.2	Surplus/(Shortfall) 2018 FINAL (incl. Interest)	\$170,430	(\$68,556)	\$489,857	\$10,639	\$86,117	\$17,576
D.3	Net Estimated 2020 Surplus/Shortfall	\$466,232	\$1,705,179	\$860,904	\$1,335,836	\$233,437	\$94,668
D.4	Agency Fees on D.3 Estimated Shortfall						
D.5	Rate Adjustment Percentage (Associated with 2020 Estimated Surplus/Shortfall)	-14.4%	-8.0%	-9.3%	-5.3%	-13.2%	-2.6%
<b>E. Adjustments</b>							
E.1	Miscellaneous Adjustment/Payment						
<b>F. TOTAL RATE IMPACT</b>							
F.1	Cumulative Revenue Requirement (C.1-D.3+E.1)	\$2,666,410	\$19,689,014	\$8,901,405	\$23,653,792	\$1,384,856	\$3,277,320
F.2	Total Estimated Rate Adjustment (A.1 - F.1)	\$572,429	\$1,697,454	\$398,502	\$1,711,995	\$386,576	\$340,472
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-17.7%	-7.9%	-4.3%	-6.7%	-21.8%	-9.4%



## STAFF REPORT

To: SBWMA Board Members  
 From: Joe La Mariana, Executive Director  
 John Mangini, Senior Finance Manager  
 Date: September 24, 2020 Board of Directors Meeting  
 Subject: SBWMA Final Report Reviewing the 2021 Recology San Mateo County Compensation Application

### Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2020-37 attached hereto authorizing the following actions:

Approve the SBWMA Final Report Reviewing the 2021 Recology San Mateo County (Recology) Compensation Application (**Exhibit A** - Final Report) which delineates the recommended base Total Contractor’s Compensation due to Recology for 2021 of \$65,774,515.

### Summary

The Recology Compensation Application for 2021 has been thoroughly reviewed by SBWMA staff to ensure that the proscribed process as delineated in the Collection Agreement is being followed, and for mathematical and formulaic accuracy. The result is a recommended 10.5% increase in Recology’s compensation for 2021.

### Analysis

The SBWMA Draft Report Reviewing the 2021 Recology Compensation Application issued to the TAC and Board on August 10, 2020 addresses Recology’s compensation due for 2021 and the Total Revenue Requirement for our 12 member agencies to meet their contractual obligations. The Member Agencies are contractually obligated to set rates to generate revenue to match the 2021 Total Revenue Requirement. Any shortfall in net revenue to Recology may result in an interest payment to Recology in the subsequent rate year (e.g., 2020 final surplus or shortfall is determined in 2021 and included in 2022 revenue requirement). NOTE: Interest only applies if Member Agencies fail to set rates to match the total annual revenue requirement.

The Member Agencies were requested to submit comments on the Draft Report back to the SBWMA by August 27. The Draft Report has been revised based on the feedback received from the Member Agencies and the Final Report was issued to the Board on September 18, 2020, for the Board’s consideration at the September 24, 2020 Board of Director’s meeting.

### ***SBWMA Review of 2021 Recology Compensation Application***

Implementing the cost adjustment methodology prescribed in the Member Agency’s Franchise Agreements for Solid Waste, Recyclable Materials and Organic Materials Collection Service (Agreements) with Recology to determine the Rate Year Eleven (i.e., 2021) compensation results in Total 2021 Contractor’s Compensation of \$65,774,515, which is an increase of \$6,253,291 (10.5% increase from prior year) due primarily to the following:

- Commencement of the 2021 Negotiated Base Compensation in the Restated and Amended Franchise Agreements of each Member Agency.
- The New Recology Restated and Amended Agreement compensation increase methodology based on CPI indices and service levels. Fuel index is the only index applicable to the 2021 compensation increase per each Member Agency's Restated and Amended Franchise Agreements.
- 2019 revenue reconciliation of surplus/shortfall and interest payments due to/from Recology (Table H in Recology Application).
- Performance Incentive/Disincentive payment to Recology of \$159,587 (Table F in Recology Application).
- Overall, 10.5% Total Compensation increase including a fuel index decrease of 18.1%

Recology's 2021 compensation is compared to 2020 in **Table 1** below.

**Table 1**

Total Contractor's Compensation	Recology Compensation			
	<u>2020 Cost</u>	<u>2021 Cost</u>	<u>Change</u>	<u>%</u>
Base Compensation	\$59,494,689	\$65,614,926	\$6,120,237	10.3%
Incentives / Disincentives	\$26,535	\$159,587	\$ 133,052	501.4%
<b>Total Contractor's Compensation</b>	<b>\$59,521,224</b>	<b>\$65,774,515</b>	<b>\$6,253,291</b>	<b>10.5%</b>

The adjustments to compensation for 2021 represent an increase in the total net compensation of 10.5% or \$6,253,291 from 2020. The results of the adjustment process are detailed by expense category in Table 3 of the Final Report. Table 4 of the Final Report illustrates the CPI and Service Level Adjustments from the Negotiated 2021 Base Compensation.

***Rate Setting and Approval Process***

This SBWMA Report and recommendation is to determine the compensation owed to Recology for collection services in 2021. This Report also provides Table 8 (**Attachment A**) which establishes the final Revenue Requirement that will be used as the basis for recommending the 2021 rate adjustments. The Revenue Requirement includes compensation to Recology for solid waste, recyclables and organic materials collection and Pass-Through costs, which include Agency fees, and disposal and processing costs at the Shoreway Environmental Center as well as prior year surplus/shortfall balances owed to/from the Member Agency and Recology.

Article 11 of the Restated and Amended Franchise Agreements states the following:

- Each Member Agency is obligated to set rates as necessary to generate annual gross revenues billed by Recology equal to the approved compensation amount plus all approved pass-through costs.
- If an Agency sets a rate that is below the approved recommendation contained in the Final Report, or if an Agency delays imposing a rate increase effective January 1, 2021, and net revenues billed by Recology in 2021 are less than needed to cover the approved total contractor's compensation delineated in the Final Report, the Agency will be obligated to pay interest to Recology on the difference.

**Background**



In 2005, the SBWMA and its Member Agencies initiated a five and a half year collection services contractor selection process that resulted in Recology and the Member Agencies executing Franchise Agreements ("Agreements") for Collection Services.

In 2017, the SBWMA and its Member Agencies initiated negotiations with Recology to amend the Collection Agreements and extend the term, which resulted in Recology and the Member Agencies executing Restated and Amended Franchise Agreements ("Agreements") for Collection Services commencing January 1, 2021. The annual compensation adjustment process to Member Agencies is prescribed in Article 11 and Attachment K of the Restated and Amended Franchise Agreements. Attachment K explains the detailed process and specific rules used to adjust the various cost categories and the allocation of costs to the Member Agencies. The tables that comprise Attachment N are used to calculate the specific cost adjustments prescribed in Attachment K.

Note: In this staff report and all attachments, the term "cost" and "compensation" are intended to have the same meaning. The term "cost" is not intended to mean Recology's true operating cost which is unknown, but rather what the company is paid to perform the services.

### **Note Regarding Town of Atherton's Pending Withdrawal from the SBWMA**

The Town of Atherton did not sign the Restated and Amended Franchise Agreement with Recology, rather it is going through the JPA Agreement process to withdraw from membership in the Authority, effective December 31, 2020. On August 20, 2020, the SBWMA Board determined that Atherton is required to pay approximately \$2.2 Million to liquidate its proportional share of liabilities prior to exiting on December 31, 2020. At a meeting held on September 16, 2020, the Town Council of Atherton agreed to pay the liquidation costs determined by the Board, and voted to go forward with the withdrawal. The next step in the process, as required by the JPA Agreement, is for Atherton to obtain the approval to withdraw from four-fifths (4/5s) of the Member Agencies (which means approval by at least 9 of the remaining Members since Atherton has already consented). This must occur before December 31, 2020. While the Board has recommended to the Member Agencies that they approve Atherton's request to withdraw, provided they pay the above referenced costs prior to December 31, 2020, the withdrawal will not be effective unless and until 9 more of the Member Agencies have approved it.

According to the Final Report, the recommended total Recology compensation for 2021 is \$65,774,515; Atherton's assigned portion of that total is \$1,612,762. If Atherton completes its withdrawal from SBWMA, Recology would no longer provide services to Atherton, and as a result, that part of Recology's total compensation attributable to Atherton would be rendered null and void, and the compensation amount would be reduced to \$64,161,753 without the need for further action.

On September 8, 2020, Recology sent a letter to SBWMA stating that if Atherton withdraws from the Authority, it believes the remaining Member Agencies would be responsible for a portion of Atherton's share of the compensation: the Allocated Indirect Costs, including profit, assigned to Atherton in the Final Report, which Recology states equal \$386,451. Recology would like this amount to be proportionally reallocated amongst the remaining Members based on the methodology used to determine their proportionate share of indirect costs. Under this method, according to Recology, percentage changes to the remaining Members resulting from the reallocation would range from 0.24% to 0.56%. (the Recology letter and calculations are attached as **Attachment C.**)

Staff has reviewed Recology's letter and the model franchise agreement, and does not agree that the agreement requires the remaining Members to assume Atherton's Allocated Indirect Costs in the event Atherton withdraws.

Each Member Agency has a separate franchise agreement with Recology, which, under its terms, became binding and effective between the parties as of the date two-thirds (8) of the Member Agencies approved and signed the agreement. The Final Report assigns an individualized total compensation amount due to Recology from each Member Agency; there is no contractual mechanism requiring one Member Agency to compensate Recology for another Member Agency's failure to meet that compensation amount, or to assume the obligations that a withdrawn Member Agency may have had to Recology had it not withdrawn.

## Fiscal Impact

### *Variance Analysis*

Rate revenue from the total SBWMA Member Agencies is calculated to require a weighted average decrease of 4.5% (**Attachment A**, Table 8, row F.3) for 2021 rates to cover the Total Revenue Requirement for the Recology cost, pass through costs, and the prior year's revenue reconciliation surplus/shortfall. Tables comparing 2021 costs to 2020 costs and showing the components of the 2021 rate adjustments by Member Agency are included in the Draft Report as Appendix D – Member Agency Variance Analysis of Total Collection Cost and Rate Impact.

### *NEW CHANGE in 2021: Recology's Service Level Adjustment by Member Agency*

The annual compensation adjustment process to Member Agencies is prescribed in Article 11 and Attachment K of the Restated and Amended Franchise Agreements. Attachment K explains the detailed process and specific rules used to adjust the various cost categories and the allocation of costs to the Member Agencies. The tables that comprise Attachment N are used to calculate the specific cost adjustments prescribed in Attachment K.

The 2021 Recology Compensation Application adjusts Attachment N costs by applying the April 2016 to April 2020 change for CPI-U Motor Fuel index to the Direct Fuel Costs. No other index-based adjustments are called for 2021. Next, service level adjustments are applied to: Direct Labor Related Costs; Direct Fuel Costs; and Other Direct Costs. For Rate Year 2021, the Single-Family lines of business service level adjustments are 75% of the percentage change in the rolling three-year average number of Solid Waste accounts in each Member Agency. In Rate Year 2021, 75% of the change in service levels for Commercial lines of business, lifts shall be used rather than accounts; and, for Drop Box lines of business, pulls shall be used rather than accounts.

Per section 7.12 of the Franchise Agreements, Recology conducted its Annual Route Assessment over a four-week period in 2020. The assessment is intended to annually confirm and update Recology's data related to customer accounts, service levels and operations, including, but not limited to: (1) number of Accounts, (2) Bin and Cart lifts, and (3) Drop Box pulls to be used as the basis for the rolling three-year Service Level Adjustment. Recology submitted its 2021 Compensation Adjustment Application using the Assessment four-week period from February/March (for commercial lifts) rather than the usual four-week period from April/May due to the San Mateo County shelter-in-place order. The SBWMA questioned this change citing that February/March was not a reasonable representation of the go forward economic conditions. In response, Recology suggested using the four week period from June/July for the Annual Route Assessment, reasoning that this period is more representative of the go forward conditions rather than the lockdown period of shelter-in-place during April/May. The SBWMA concurred with this reasoning and is recommending Recology's 2021 Compensation utilizing the June/July Route Assessment period for the commercial lifts Service Level Adjustment, which reduces Recology's 2021 compensation by \$242,812 from the Recology 2021 Compensation Application submitted to the SBWMA on July 17, 2020.

### ***Total Collection Rate Adjustment***

The total rate adjustment is provided in **Table 8 (Attachment A)**. This table presents the Total Collection Rate Adjustment from all sources that impact rates by Member Agency, as follows:

- **Section A** - This section provides the estimated 2021 Collection Revenue using 2020 rates (**A.1**), the 2021 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2021 Revenue Requirement (**A.7**), the estimated 2021 Surplus/Shortfall balance with Recology (**A.8**), Agency Fees on shortfalls (**A.9**), and the Rate Adjustment Percentage (**A.10**). *The overall SBWMA rate adjustment is a 4.5% increase; however, each Member Agency has a different adjustment percentage.*
- **Section B** – This section provides the results of the 2019 Recology Revenue Reconciliation surplus/shortfall that must be added to the 2021 rate adjustment.
- **Section C** – This section provides the cumulative 2021 Required Rate Adjustment which is the sum of sections A and B.
- **Section D** – This section provides the “2020 estimated surplus/(shortfall)” balance with Recology (**D.1**), including the adjusted 2018 surplus/shortfall (**D.2**) and the associated Agency Fees on any net estimated shortfall (**D.4**). The 2020 Revenue Reconciliation will be finalized in 2022, similar to how the 2019 Revenue Reconciliation was finalized in 2021.
- **Section E** – This section includes an adjustment for Belmont’s unique agreement with Recology.
- **Section F** – This section provides the “Cumulative Revenue Requirement” (**F.1**) and the cumulative surplus (**F.2**), which includes the result of Sections C, D and E. **The overall SBWMA recommended rate adjustment is on line (F.3).**

### **Attachments:**

Resolution 2020-37

Exhibit A – [SBWMA Final Report Reviewing the 2021 Recology San Mateo County Compensation – Available online only at www.rethinkwaste.org](#)

Attachment A – Table 8 (from the September 17, 2020 SBWMA Final Report Reviewing the 2021 Recology San Mateo County Compensation Application).

Attachment B – Member Agency Refunds from Recology for Surpluses and Payments to Recology for Shortfalls

Attachment C – Recology Letter



## RESOLUTION NO. 2020-37

### RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING THE RECOLOGY SAN MATEO COUNTY 2021 COMPENSATION APPLICATION AT THE FINAL SBWMA REPORT

**WHEREAS**, On February 28, 2013, the South Bayside Waste Management Authority (SBWMA) Board of Directors approved modifications to the schedule prescribed in the Member Agencies Franchise Agreements for Collection of Recyclable Materials, Organic Materials and Solid Waste with Recology San Mateo County (Recology) specifying that the SBWMA Board of Directors' was required to submit comments, questions and concerns on the Draft Report to the SBWMA by August 30 each year; and,

**WHEREAS**, The SBWMA prepared and issued to the SBWMA Board of Directors on August 10, 2020 the SBWMA Draft Report Reviewing the 2021 Recology Compensation Application (Report); and,

**WHEREAS**, The Draft Report issued by the SBWMA on August 10, 2020 was updated based on feedback from Member Agencies and the SBWMA subsequently issued the Final Report (**Exhibit A**) to the Board of Directors on September 18, 2020; and,

**WHEREAS**, The Final Report recommends a 10.5% increase in the total contractor's compensation when compared to the 2020 compensation approved by the SBWMA Board of Director's on September 26, 2019 per Resolution No. 2019-51. The total 2021 Recology contractor's compensation is \$65,774,515.

**NOW, THEREFORE BE IT RESOLVED** that the South Bayside Waste Management Authority hereby approves:

1. The SBWMA Final Report Reviewing the 2021 Recology San Mateo County Compensation Application.

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 24th day of September, 2020, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist.				

I HEREBY CERTIFY that the foregoing Resolution No. 2020-37 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on September 24, 2020.

ATTEST:

\_\_\_\_\_  
Cyndi Urman, Board Secretary

\_\_\_\_\_  
Jess E (Jay) Benton, Chairperson of SBWMA



September 8, 2020

Joe LaMariana  
Executive Director  
SBWMA  
600 Elm Street  
San Carlos, CA 94070

Re: Town of Atherton's remaining Indirect Cost Compensation

Dear Mr. LaMariana,

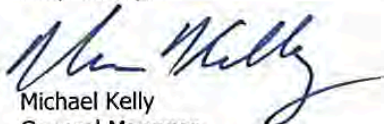
As you accurately described during the August 20, 2020 Special Meeting of the South Bayside Waste Management Authority (SBWMA), with the Town of Atherton's (Town) possible exit from SBWMA, certain fixed costs associated with the collection services being provided by Recology San Mateo County (Recology) will remain. Recology's Rate Year 2021 Compensation Application includes \$386,451 relating to the Town of Atherton's Allocated Indirect Costs. The Allocated Indirect Costs include General and Administrative, Operations, Vehicle Maintenance and Container Maintenance costs.

Attachment K Table 1.F of the Amended and Restated Franchise Agreement indicates that the annual Allocated Indirect Costs amount shall equal \$17,429,667 for Rate Year 2021. This amount was subsequently reduced to \$16,429,667 during final contract approval. Section 8 of Attachment K describes that Rate Year 2021 Contractor Compensation was allocated among the Member Agencies using the methodology described in the 2009 Franchise Agreement (Attachment K, subsection 6.B). Attachment K, Section 6.B.1.h of the current agreement describes the methodology used to allocate Indirect Cost to each Member Agency be based on each Member Agency's proportionate share of accounts for General and Administrative Costs, annual route hours for Vehicle Maintenance Costs, containers in service for Container Maintenance Costs and annual route hours for Operational Costs.

Percentages changes to the remaining jurisdictions resulting from the reallocation of the Town's Allocated Indirect Costs range from 0.24% to 0.56% (less than 1%) of the Revenue Requirement identified in Table 8 of the SBWMA's Draft Report Reviewing the 2021 Recology San Mateo County Compensation Application. A chart which includes the annual amount of each Member Agency's change as well as the percentage changes and an updated Attachment N, which includes these reallocated costs, will be forwarded to you separately.

Please contact me should you have any additional questions.

Respectfully,

  
Michael Kelly  
General Manager