DIRECTOR NURU: Okay. Let the hearing please come to order. Good morning, everyone. Good morning. All right.

I am Mohammed Nuru, Director of the Department of Public Works of the City and County of San Francisco. Let the record show that today is Wednesday, April 19th, and the agenda for today’s hearing is on the table.

Today we are continuing the Director’s hearings on Recology’s application for an increase in residential refuse rate collection and disposal rates.

On February 14th of this year, Recology filed an application to raise residential rates with the Chair of the San Francisco Refuse Collection & Disposal Rate Board. The application was referred to me for hearings which began in March. On April 14th, staff from the Department of Public Works and the Department of Environment issued a Staff Report. Copies are available on the table.

The Staff Report recommendations are the focus of these final three hearings. I will hear the testimony, cross-examination and rebuttal of the Staff’s recommendations and consider all the evidence including public testimony before making my recommendation.

Today’s hearing is being transcribed, so I want to remind everyone who speaks to come forward and speak clearly into the microphone so that we can capture your entire testimony. Please do not speak from your seat in the audience.

One more piece of housekeeping: I would like Public Works clerk to make an announcement concerning the Department’s effort to comply with Title VI of the Civil Rights Act and ask your cooperation with a public participation survey.

Mr. Pujol, will you please proceed with your announcement.

MR. PUJOL: Title VI of the Civil Rights Act requires equal and equitable access to San Francisco Public Works program activities and services. To document that the Department is in the compliance with Title VI, we ask that everyone attending and participating in today’s hearing complete a public participation survey.

However, this survey is optional and completing it is not required for participation. The data that you provide will be analyzed and used to ensure residents and stakeholders in the community are involved in the refuse rate hearing process. The information will not be used for any other purposes.
<table>
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<th>Page 562</th>
<th>Page 564</th>
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<tr>
<td><strong>CITY’S PRESENTATION ON STAFF REPORT</strong></td>
<td><strong>San Francisco Rate Application Request for Information #1,</strong> and that’s a lot of the detailed tables that support the consultant report.</td>
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<td><strong>Ms. Dawson, will you please proceed.</strong></td>
<td><strong>MR. PRADHAN:</strong> So the “R3 Consultant Group Task Order #2” will be Exhibit 79, and the “Request for Information” will be Exhibit 80.</td>
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<td><strong>MS. DAWSON:</strong> Thank you, Mr. Nuru.</td>
<td>(Exhibit 79, “R3 Consulting Group Task Order #2 [City],” was admitted into evidence.)</td>
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<td>I’m going start by introducing the Staff Report.</td>
<td>(Exhibit 80, “C&amp;CSF Rate Application Request for Information #1 [City],” was admitted into evidence.)</td>
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<td><strong>MR. PRADHAN:</strong> The Staff Report will be Exhibit 78.</td>
<td><strong>MS. DAWSON:</strong> And at this point I have somewhat limited copies of Request for Information #1 due to a technical malfunction in our office, but I’m working on printing out a few more right now.</td>
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<td>(Exhibit 78, &quot;2017 Refuse Rate Application Staff Report [City],” was admitted into evidence.)</td>
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<td><strong>MS. DAWSON:</strong> Mr. Haley just pointed out to me that Attachment A is not on the version of the Staff Report that I just handed out, so I’ll make sure to amend the exhibit. But Attachment A is just a list of all the prior exhibits that have been entered into evidence; so while it’s useful, I don’t think it’s extremely vital for the presentation of the Staff Report itself.</td>
<td>Department of the Environment, after I’m done, may well wish to make some additional comments on the report. This Staff Report was written in collaboration between Public Works and Department of the Environment, so we all have somewhat of a hand in different pieces of</td>
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<td>I also have two additional bits of documentation that I’d like to enter into evidence.</td>
<td>the report as a whole.</td>
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<td>The first one is called “R3 Consulting Group Task Order #2,” and it’s the detail of a lot of what is summarized in the Staff Report.</td>
<td>So the report at the beginning has a couple of targeted recommendations that are very detailed in nature and focus on either Recology San Francisco or Recology Sunset Scavenger and Recology Golden Gate, which we tend to call &quot;the collection companies.”</td>
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<td>And in addition, there’s a second document which the title on top says “City and County of San Francisco Rate Application Request for Information #1” will be Exhibit 80.</td>
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<td>For Recology Sunset Scavenger and Recology Golden Gate, we’re recommending that we add additional revenue to reflect some of the new apartment units that we know are going to be coming online in the very near future due to a lot of the building that’s going on in the city which will increase the amount of apartment revenue.</td>
<td>And we’re also recommending that we adjust certain field costs -- in particular, certain types of CNG or other fuels -- to reflect the actual uses that the company has in their fleet.</td>
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<td>In the report itself, there’s a rather extensive conversation about revenue and expense review.</td>
<td><strong>Director Nuru:</strong> Thank you, Mr. Pujol.</td>
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<td><strong>Zimmer:</strong> You will find the survey in the sign-in table. Please place completed survey forms in the collection box.</td>
<td><strong>Thank you.</strong></td>
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<td><strong>DIRECTOR NURU:</strong> Thank you, Mr. Pujol.</td>
<td><strong>I don’t see any hands. If not, I would like to ask Ms. Dawson of Public Works to present a brief comment. You may also convey your comments to Ms. Rosie Dilger from the Ratepayer Advocate.</strong></td>
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<td><strong>Let me briefly outline the order of business for the final three hearings.</strong></td>
<td><strong>Are there any questions at this time?</strong></td>
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<td>We will begin today with a presentation on the Staff Report. We will then have cross-examination of the City’s staff by Recology and the Ratepayer Advocate.</td>
<td><strong>We have a third and final hearing scheduled for May 3rd, if necessary. As in prior hearings, we will reserve the last period each day for public comment. You may also convey your comments to Ms. Rosie Dilger from the Ratepayer Advocate.</strong></td>
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<td>The Companies will then begin their rebuttal to the Staff Report.</td>
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<td>We will continue the presentations of the Companies’ rebuttal next Wednesday, April 26, followed by cross-examination by the Ratepayer Advocate and City staff, and any redirect on the issues raised by either party.</td>
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Both City staff and our consultants, R3, performed a very detailed and thorough review of Recology’s revenue and expense assumptions and in general, we found them to be verifiable and reasonable.

The report offers what I think is kind of a helpful summary of the rate increase in two different ways, just to kind of explain it a little bit more to people who may not be as familiar with the application as we’ve become over the last month or two.

And it shows both the cost drivers broken down by category and it also shows that the increase is somewhat evenly split between what we would describe as the collection, which is done by Recology Golden Gate and Sunset Scavenger, and by processing which in general is Recology San Francisco.

As far as the rate structures and rate increases, the City is still exploring options but is generally supportive of the structure that Recology’s recommended. But we are still concerned about the potential impact, in particular, on low-waste generator customers; and so we are continuing to look at ways in which we could mitigate the adjustment.

The goal in the rate is to make sure that we have as small a distribution as possible in terms of the impact on customers, which means we want, ideally, customers to be as close to the average rate increase as possible. So when we see a significant number of customers out at the tail in either direction, we’re trying to bring those customers closer to the center in order to hopefully establish the most equitable rate structure that we can while also reflecting the importance of showing that Recology’s fixed costs are roughly 60% of the operation and trying to raise the fixed cost to be closer to the true cost of service.

On apartment revenues, the City does feel that the migration assumptions and the corresponding projected revenue loss from that shift is a little optimistic in the current application. The Staff Report had proposed leaving the revenue assumptions in place and then adjusting things at the end of the year. But we’re also interested in reviewing and potentially just adjusting the revenue assumptions overall and then not doing these year-end adjustments that were considered in the report; so those conversations between the City and Recology will continue and hopefully we can reach some kind of agreement on what those reasonable revenues should be.

The City has made a recommendation on the CPI inflation factor. So based on our analysis of Recology’s information, we recommend that the CPI adjustment be shifted down from 3%, which is what Recology had used in the application, to 2.7%, and that’s based on our evaluation of past financial data provided by Recology and an extensive review by the City’s financial consultants, R3, in collaboration with Public Works.

For the COLA formula, the City did not accept Recology’s proposed changes to the COLA formula. But in an evaluation of the data, we are suggesting that Recology could adopt a pension adjustment factor that’s based on information that it already has provided to the City and its financial consultants in lieu of having to do a more onerous actuarial process. And so we look forward to discussing with Recology our recommendations in this area and hopefully come to some kind of conclusion that works for both parties.

The Contingent Schedules 1 and 2, Staff recognizes and is generally very supportive of Recology’s need to make these investments to improve diversion, but we have recommended some conditions for approval and they are as follows:

The costs are to be limited to what’s in the application. Recology must demonstrate that it can achieve the diversion levels that it is promising in these investments. Property lease terms need to be consistent with the useful life of the facility. And lease expenses would not be added to the rate base until the facility goes into service and is beneficial to the customers and ratepayers.

For the Bulky Item Recycling and Abandoned Materials Collection program, the City is generally supportive of the idea of merging both programs for the benefit of better customer service as well as better efficiency. We are currently evaluating some of the programatic data on Bulky Item Recycling that Recology has provided the City, and we’re still discussing exactly what the program hours of operation would be.

The City does have some concerns about the way in which Abandoned Material customer service calls come in during the day, but we also recognize that Recology is trying to come up with a program that can be efficient and effective; so we need to discuss more and share data to come up with, hopefully, a plan that will work for both the City and Recology operationally and we will be discussing those particulars in detail at a future hearing.

The Zero Waste Incentive program. So the City has agreed to the tonnage targets as proposed by Recology, but we do have some modifications. At this point, the Staff is proposing to rebate Tiers 1 and 2 to
the ratepayers if the targets are not met, but Tiers 3 and 4 would be available to be spent on pilots and proposals from Recology that would improve diversion. That structure is similar to the one that was put in place in 2013.

The City, however, is proposing a change to the Zero Waste Incentive tonnage targets. If Recology triggers Contingent Schedules 1 and 2, because these Contingent Schedules are forecast to significantly change diversion, and so we believe that the Zero Waste Incentive program should be adjusted to reflect those significant changes based on the investments.

Finally, low-income discounts. So there has been discussions and significant concerns raised by the Ratepayer Advocate and some members of the public on people with fixed income or with low-income, and we have at least made an initial recommendation that Recology should change its low-income program to reflect the federal poverty guidelines. At this point, they have not updated the income numbers to reflect what other utilities are doing such as PG&E and SFPUC; so we recommend that they change those income levels which will actually broaden the ability of low-income customers to take advantage of rate discounts. And we may have additional conversations around low-income.

DIRECTOR NURU: Okay. Thank you, Ms. Dawson. I would now like to invite Recology to cross-examine City staff on the Staff Report.

MR. HALEY: Thank you, Julia. That was an excellent summary. I just wanted to add a couple of things. Going back to page 3 of the Staff Report, there were three adjustments with dollar values that Julia mentioned. The first one was regarding the Port lease at Recycle Central, and basically that was making a two-year rent adjustment conform more closely to the rate period, and I want to introduce an exhibit that gives a little more detail on that.

And for those that have a chance to look at the exhibit, if you go to the third page, there's a column titled "Additional Rent Payment," and that's the column that we're amortizing over three years. And that then computes to the $159,984 dollars on page 3.

MR. PRADHAN: And for the record, this document is a four-page document, a March 10th, 2017 letter between the Port of San Francisco and Recology, and it will be Exhibit 81. (Exhibit 81, "3/10/17 Port letter to Recology [City]," was admitted into evidence.)

MR. HALEY: And the second item on page 3 of the Staff Report that has a value of change is the "Additional Apartment Revenue." And as Julia mentioned, that relates to some assumptions about the number of buildings that will come online in the next year or so. The application says 25 new customers, and looking at the pipeline, Exhibit 77, we believe the number is closer to 50. And additionally, the buildings coming online have a lot more units than the current average number of units per building; so we're going to want to talk about that a little more and look at that a little bit further in the process.

And then the third item with a value is the CNG fuel costs, and this really is essentially adjusting the diesel gallon equivalent on CNG from $2.02 in Exhibit 58 to $1.84, and Kevin can explain that DGE calculation later on if we need to.

Thank you.

DIRECTOR NURU: Thank you, Mr. Haley. Okay. I would now like to invite Recology to cross-examine City staff on the Staff Report.

Mr. Baker, why don't you step up to the dial and let us know which Staff members you would like to begin with and the issues you would like them to address. We will proceed through the City's witnesses in whatever order you would like.

MR. BAKER: Before I begin, I understand that the Ratepayer Advocate has a presentation to make as well and has some comments on the Staff Report; so I wonder if as a matter of efficiency, it might be better to have the Ratepayer Advocate go so that to the extent I have any questions, I might have in mind also the Ratepayer Advocate's comments.

DIRECTOR NURU: I would entertain that and I would ask the Ratepayer Advocate to please come forward and proceed with their report.

RATEPAYER ADVOCATE'S PRESENTATION ON STAFF REPORT

MS. DILGER: Good morning.

DIRECTOR NURU: Good morning.

MS. DILGER: I have an item to enter.

So as you know, Ratepayer Advocate has been doing an incredible amount of outreach throughout the city, and in our outreach, we put together this small report of our findings and what the general feelings of feedback were among the community. And in doing this,

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we presented it to Public Works to incorporate into their Staff Report with our recommendations. In our outreach, we reached out to over 150 neighborhood groups and organizations, targeting neighborhood associations, improvement associations, sometimes City commissions when relevant. And in doing that, we actually did presentations to over 60 different groups; so in that, we received a lot of feedback. We also collected feedback online via social media, our website, e-mail, phone, and also multi-mailing bomb. Similar to the findings that we had in the first hearing that we did, the common themes in feedback really surrounded the cost of living in San Francisco in general. Also as Julia pointed out, disproportional impacts to certain types of customers, in particular, low-waste generators.

Also, residents who live in buildings that are two to five units and would see the dwelling fee increase significantly, as well as seniors and those on fixed incomes. We also pointed out that the number that we're using for the lifeline rate is significantly lower when we're using federal numbers versus local San Francisco-adjusted mean income. Additional feedback we received was really kind of discontent with minimum service requirements and pickup requirements. Also, some confusion and misunderstanding with the apartment and commercial rates. Some ratepayers who live in buildings with 6 to 600 residents didn't understand why they were commercial rates and if this process even applied to them.

And also, of course, the issue with pilfering and enforcement, probably the most popular topic at any given meeting.

The public process itself, I think most of the community members were pleased with the amount of outreach but displeased with an 8:00 a.m. start times of these meetings. Education and outreach was a big topic. A lot of people didn't understand where the money was going and what it was being spent on and why there was a need for more.

As well as zero waste. Generally, every ratepayer in San Francisco understands the goal of zero waste and agrees with it, I would say, by and large. But as we talk about fixed costs, the need for landfill versus the policies around getting to zero waste, people are starting to wonder, when push comes to shove, if this is going to be affordable for the actual ratepayers.

And then also in regards to the Zero Waste Incentive funds, people really want their rebates back and they're a little bit suspicious if the Tier 1 and Tier 2 were not given back to them, they just want a level of transparency to understand where they're going. So in this, Ratepayer Advocate had a number of recommendations. Our recommendations were: To adopt a rate structure that has a more equitable impact on all ratepayers; To reallocate or reduce the $20-dollar-per-unit dwelling fee; Incentivize and improve diversion with mindful behavior through the rates; Develop a comprehensive outreach program that directly engages customers that are not in compliance with the City's mandatory Ordinance and focus on ways to improve compliance in multi-family units and larger residential buildings; To empower communities to be involved in the outreach so they're not relying upon Recology or the City to educate ratepayers; And to provide options for low-income seniors and those on fixed incomes who earn above the lifeline rate but below 55% of the AMI, which is about $41,500.

Thank you.
Recology has submitted a letter to the Department and in particular to you, Mr. Nuru, in our view satisfying those requirements, and I would just want to mark that as an exhibit. It’s a letter dated April 7, 2017, from Mark Lomele, Chief Financial Officer of Recology, to Mr. Nuru. And that would be --

MR. PRADHAN: That would be Exhibit 83.

MR. BAKER: Mr. Nuru, let me explain our proposal as to how we proceed both today and next week in order to use the time that we have most efficiently.

We and everyone else received the Staff Report Friday afternoon and want to commend the Staff on a report well done. We obviously don’t agree with everything that’s in it, but it does credit to the proceedings that have happened so far, clearly stated, and frames the issues very well; so we appreciate that.

We have some particular issues that we would like to talk about through Recology witnesses, but we’d like to wait and do that next week and not this week so that we have additional time to organize those presentations. We don’t think that is going to consume a large amount of time, and let’s not take it off the

So Recology witnesses did testify that given current technology, they believe that a 15% diversion was a reasonable and achievable target. The 30% though is, from Recology’s standpoint, aspirational and not achievable with the current technology that they’re using.

So not intending to be confrontational about it, we kind of wanted to get the City’s thoughts on how you thought that 30% might be achieved given the current technology that’s available.

Ms. Dawson: Did you want to talk or did you want me to talk first?

Director Nuru: Why don’t you go first.

The Witness: Yes, Jack Macy with the Department of Environment.

So we recognize that conservatively, based on the recovery of recyclables, the 15% target was identified. The proposed processing for the trash involves also separating out organics for potential recovery. And I think in the interest of helping the city move towards zero waste and benefit from this investment, Staff would really like to see that there’s a clear effort and intention in planning on the part of Recology to work to be able to divert the organics that are separated out and not simply say, “Okay, we’re satisfied in the long term that we just simply recover...
the 15%," that there is potential for recovering more
and Recology has already engaged in efforts that will
provide opportunities for that.

Staff understands that includes the Company's
efforts to permit an anaerobic digestion facility at
their Hay Road facility; that staff understands is
on a probably on maybe two-to-four-year timeline,
understanding that's not guaranteed.

There's also money in the rates that are
reflected in the RSF in one schedule, I believe, that
provides engineering costs to conduct money for
engineering and permitting for an anaerobic digestion
facility at the Tunnel Road complex. Again, that's not
a guarantee, but there is planning for that.

So what Staff envisions is hopefully
common in the two-year time frame from now when, if all
goes well and we're on our kind of best case scenario
timeline-wise with the IMRF and we're ready to build the
trash processing facility, that at point that there
would be enough progress either with the Hay Road
digestion permitting and/or the Tunnel Avenue facility
ing engineering permitting and/or other options.

Recology, for example, has been working with
East Bay MUD for over a dozen years in having some
materials digested, and of course, that's part of the
trash processing pilot program where the organic
fraction's going. Understandably, there's a strict
criteria there for that. But East Bay MUD, as Staff
understands, is looking at options -- pursuing options
where they might have additional processing that could
take material and clean it up for their digesters.

So those are three different scenario options
that Staff envisions, and there may well be additional.
So what Staff's envisioning is that Recology would
sort of identify potential options, and the condition
that's written in the Staff Report is -- says "the
feasibility"; doesn't say the absolute-without-question
will happen, but there's a feasibility the likelihood
that there would be the ability to divert it.

Now, Staff recognizes that that may well incur
additional costs that Recology would have to come back.
So within three years, the facility would get triggered
once it's operational; so then there would be three
years -- a plan that, within three years, those organics
that are being recovered where there's an investment to
recover them will have a home and markets versus just
being complete uncertainty and no plan.

MR. HALEY: And I'd like to just add to that.

If you look at Item No. 3 on page 25 of the
Staff Report, it's right below the item we're
discussing. It says, "... or other potential end
markets." That could be beyond organic material.

We recognize there are other materials in this
stream. For example, there's a substantial amount of
film plastic. And the markets are challenging, but we
want to continue working with the Companies to develop
markets for those kinds of materials. So we believe
with the organics, with other non-organic materials,
that the potential is there, and we'd like to explore
that with you down road.

MR. BAKER: That's very helpful.

BY MR. BAKER:

Q. On the assumption at the beginning that the
15% that Recology had presented was for capturing
recyclables only, and I may have misunderstood you.
My memory was that the 15% was not only the capturing
of the recyclables, but also the recovery of this
organic paste that may have some commercial use with the
current technology that they have and the total was 15%.

Is my memory wrong on that?

A. Well, I think we're maybe mixing a couple of
things. So first off, the trash processing pilot
program that would occur immediately has a 25% recovery
based on 10% of it being organics through the press
going to East Bay MUD and a projected 15% being
Q. And in discussing ways that 30% might be achieved, you didn't mention anything about some alternative technologies that are being considered in other jurisdictions dictionary -- different types of thermal processing, biogas, that sort of thing. And I think it might be interesting for the record for the City to kind of lay out the current thinking on those other types of technologies as a way to get to zero waste.

A. Well, as acknowledged in the Staff Report, Staff has been working with Recology for a number of years in looking at potential technologies around the globe. And so we're monitoring different technologies that have been -- there's a technology, for example, that was being piloted in Denmark and they just built a commercial-scale facility that is just starting up.

We're going to be looking at that closely as a potential model. There are other technologies. There are new processing facilities that are being built in the Bay Area, some that are claiming a higher recovery rate. But they haven't demonstrated that yet, so we'll be closely looking at that.

And it's been acknowledged this is an area where technology evolves to evaluate and improve, and so we do see a lot of potential out there and we want to be working with the Companies over the next few years to keep identifying what would be the best, most effective cost-effective technology.

Robert says you mentioned high temperature. We generally have a policy of not wanting to have high-temperature material destruction technologies. So for example, digesting materials, that would be in a range up to a 130-some degrees Fahrenheit. That's not considered a high temperature, but burning mixed material, you know, certainly would be; so you know, we see a lot of options there that don't require that.

Q. Thank you.

MR. HALEY: And I'll just add to that.

You mentioned "high temperature" and "zero waste," I believe, in the same sentence. We don't consider that a form of zero waste. Zero waste is really about the highest and best use of materials.

The hierarchy is really about reducing, reusing, recycling, composting, digesting, and not about landfill or high-temperature disposal. And we can, I think, talk about that more outside of the rate process. I think we're going to be talking about that more following this process as we get closer to our goal of 2020. We need to talk more about what zero waste is publically and how we're going to get further and how we might refine our policies as a city.

MS. DAWSON: I just want to add that the reason we put those goals in, which we think are reasonable and had a long implementation time, one thing that Jack didn't echo, but the 30% says "within three years of operation"; so the City knows there's a lot of options here. We also recognize that this area of processing is a key place where we can achieve higher diversion, and so we're really looking to Recology to lead along with the City in advancing these diversion goals, and that is why we put these conditions in that schedule.

MR. BAKER: Thank you.

BY MR. BAKER:

Q. And then another question about the Contingent Schedules, and that's a question of timing. And the mechanics of when -- the mechanics of that, what stage in the development process Recology would make a presentation to the Director as to its satisfaction of the preconditions. And because final costs of construction are not known until the ribbon is cut, and maybe not even until after that sometimes, but we have estimates and projections just like we have here in the West Wing, which we feel very confident about and have been vetted quite a bit and the Staff Report expresses confidence in that as well.

So there are different stages in the process and the Staff Report doesn't specify exactly when there would be an expectation that Recology would present its information indicating that it satisfied the conditions and the Contingent Schedule should go forward; so I just want to get the Staff's thoughts on that.

MS. DAWSON: I think in past years when we come to the Director's Report, we've been a lot more specific about, you know, kind of right at the time of permitting. And I think what is important here is that the project far enough long in development that both the City and Recology have confidence. I think we have evidence that that kind of time of triggering works pretty well.

If you look at Recycle Central and the use of Zero Waste Incentives to make those improvements, Recology had refined its estimates and budgets very thoroughly before we got to that point of trigger, and as a result, that project came in on time and under budget. So I think we're going to look at something along those lines for the requirements that will be more clear in the Director Report.

MR. BAKER: That would be very helpful.

Thank you.
By Mr. Baker:

Q. Good morning, Mr. Drew.
A. Good morning.

Q. I don't know if you've been sworn in yet or whether you need to identify yourself.
A. I was sworn in earlier, yeah.

Q. All right. Very good.
A. I wanted to ask you in particular as I mentioned about the discussion on page 15 of the Director's Report. And in particular, the middle of the page -- sorry, the Staff Report. And particularly, the middle of the page which talks about the projection of an increase of 25 apartment customers, and the statement that Staff felt that 50 was a more appropriate number to use. Is the view that 50 is a more appropriate number than 25 based on Exhibit 77?
A. I would say yes in that that includes both the Planning Department's -- their version of the pipeline, which then the Business Times reinterprets and applies. If you look at the Business Times, it has citations for a couple of other sources for their information; so it's really a combination of those two sources.

Q. Okay. And when you say "the Business Times," the Business Times is the source for Exhibit 77; right?
A. It is one of the sources in Exhibit 77.

Q. Right. And then the second source is what?
A. Is the Department of City Planning's -- what they call their pipeline, which is a projection that they -- an analysis that they do on an annual basis of just a review of all the construction projects that are either in construction, in development, or in planning stage.

Q. And if I'm interpreting the Planning Department's spreadsheet which is part of Exhibit 77 correctly, for multi-family buildings, it doesn't tell us the number of customers; rather, it tells us the number of occupants.

Q. Whereas the excerpt from the Business Times talks about the number of buildings, and therefore the number of customers?
A. Exactly. As it has a specific buildings with the unit count, actually. If you look carefully, you'll see both.

Q. But you would agree that a single building is a single customer?
A. Is the account that we're talking about a single customer?

Q. And if it has a list of -- looks like 39 buildings that were then under construction.
A. Actually, it's 44. Because there's 5 non-profits in there, which don't count in their order. But if you look carefully, there's 44.

Q. I see. It has "NP" next to it.
A. Actually 43, yeah.

Q. 43 total. And then it also has a list of another 10 or 12 which are approved, but not yet under construction as of June of 2016?

A. The number of units. It has units as opposed to buildings.

Q. Whereas the excerpt from the Business Times talks about the number of buildings, and therefore the number of customers?
A. Exactly. As it has a specific buildings with the unit count, actually. If you look carefully, you'll see both.

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Q. I see. It has "NP" next to it.
A. Actually 43, yeah.

Q. 43 total. And then it also has a list of another 10 or 12 which are approved, but not yet under construction as of June of 2016?

A. Right, right.

Q. And again, we're now talking about apartment customers.
A. Exactly.

Q. And apartment customers, by definition, has to be a building with less than 600 rooms; right?
A. Right.

Q. So if an apartment building has 400 units, it's likely to have more than 600 rooms?
A. Right. And that would commercial therefore.

Q. Right. And that's also true of 300 units -- might even be 200 units depending upon the building, we're likely to have more than 600 rooms?
A. Right.

Q. And as you've pointed out, if it's more than 600 rooms, it's classified as a commercial customer, not an apartment customer?
A. Right.

Q. Okay. So if we look at the list on Exhibit 77, a lot of these are commercial customers, not apartment customers. Am I right?
A. Right.

Q. And in particular, if we -- the list of buildings that were under construction as of June of 2016 are ordered by size; correct?
I took it from another page and put it onto this page so that we got from Planning. Actually, it's their -- sums all the -- this is what I added to that exhibit bottom you'll see a summary called "Project Status" that spreadsheet, if you look on Exhibit 77, at the very the -- at the bottom of the Department of Planning And the other thing that we looked at was going on in the city -- and you can't miss it because of where there's obviously a lot of building has been A. Right. Well, we looked at both this high end Q. I'm curious as to why you think this list justifies assuming 50 new apartment buildings coming online rather than 25. A. Right. We looked at both this high end of where there's obviously a lot of building has been going on in the city -- and you can't miss it because you see it in the sky -- as one indicator. And the other thing that we looked at was the -- at the bottom of the Department of Planning spreadsheet, if you look on Exhibit 77, at the very bottom you'll see a summary called "Project Status" that sums all the -- this is what I added to that exhibit that we got from Planning. Actually, it's their -- I took it from another page and put it onto this page so you could see it together because I thought it was instructive. You'll see it's divided out by three different categories. "Under Review" in the far left-hand side under "Project Status," there's "Under Review," "Entitled," and "Construction." There's a hundred -- and then you go across reading to from left to right, you'll see the size of the units. The 2 through 9 will start to get you into apartment buildings, because you got a 6-, 7- and 8-unit building -- and 9-unit buildings are apartments, and then all the categories going to the right, 10 through 19, 20 through 49, 50 through 99, and the very high are the -- at the bottom of the Department of Planning, where there's obviously a lot of building has been going on in the city -- and you can't miss it because you see it in the sky -- as one indicator.

And if you take simply the "Construction" line, not looking at "Entitled" or "Under Review," in each case we took average of those number of -- it was 10 to 19, for instance, the middle of that 14.5 units. We'd say that was a divided 14.5 units into the number of units being projected, and projected a number of buildings. You come up with five buildings in that category. In other words, those number of units could reasonably represent five buildings.

Q. So you took 78 and you divided 14.5 into 78? A. Right. And you get about 5.

So we did that all the way along, and when you bring that total over to the right, you end up with 47 as the number of buildings that could be built in just these smaller categories -- well excuse me, not just "these smaller categories." This covers everything up to 250 units, which is that lower half of the -- back over to the other chart that we talked about, the pipeline from the Business Times. That lower half, if you take a look at that -- so I am jumping around here. I'm back over to the pipeline. The lower half of that has about 22 buildings in there, all of which came on -- most of which came on in '16 and '17, and it's about 10 in each; so that gives us confidence that there's those many coming on at that high end. And then what you see in the lower chart that we referenced a moment ago is the amount of construction happening on the lower end -- combined gets you to closer to 50 than the 25 that you would use.

Q. Okay. Well, I can't do math that fast, so I will probably take about a week to do to those calculations.

Q. So maybe we'll have some for questions for you next week, but I appreciate you describing the methodology.

A. Yeah. Actually, and there's one additional point in here that we were seeing, which was the 25 units that are mentioned in both in the application and referenced in the Staff Report were average apartment building accounts. You took the average, the total income -- total revenue for the apartments divided by the number of buildings and you came up with an average revenue number. That's about a 14.5-unit building.

And it appears to us that there's substantially a higher number -- a greater number of units in the buildings that are coming online, and that therefore -- we're working on some calculations about what we project could be the average for the buildings that are coming online which tend to be -- there are a lot that are in the 100-unit size. So that would seem to increase that average by some number, which might also compensate for the number of buildings being higher.
Q. One other question. You say source of this was from the Planning Department?
A. Right.
Q. And it looks like from the cover e-mail, that somebody from Planning sent to you?
A. Right.
Q. Is this a publicly-available document?
A. Yes. It's on the Web. And what the Business Times does is simply label the information in a way that makes it more easy to present. The raw data is there, and I'm not a great manipulator of data either, so I need help.
Q. And the second page of Exhibit 77, if I understood you correctly, the top 7/8th or so is just the information you got from Planning --
A. Right.
Q. -- that's publicly-available?
A. Yes.
Q. And that the section at the bottom was what you added to compile and summarize the other information?
A. Actually, yes. Just the totals. That "Project Status" and "Under Review" is in another tab in that same Excel file; so I just summed it in, brought it across.
Q. Great, very good. Thank you.
So if I get this right, a question on the Contingent Schedules and the Zero Waste Program. And the question is the Staff Report, as I understand it, suggests an adjustment in zero waste goals if the Contingent Schedules are approved.
And so the question Mr. Porter has is if the contingent schedule, one or both are approved mid-year, how would that adjustment work and what would be the timing of it?
MR. BAKER: We have a question for you.
(Mr. Macy steps up to the witness stand.)
MR. MACY: Yeah. So we're looking at a full rate year. So it would be our first full rate year of operation.
MR. BAKER: Thank you.
BY MR. BAKER:
Q. In other words, as I understand what you're saying, if the Contingent Schedule is approved mid-year, the goals are not changed for that year; the goals then become changed for next rate year?
A. Yes, that's correct.
Q. Going back to the question of revenue adjustments for apartments, in increasing the assumptions from 25 to 50, in coming up with the revenue adjustment of $165,072 dollars, was any consideration given to extra operating costs, extra costs of collection, et cetera?
A. We understand that there is always additional costs when revenue comes on. We simply use the same number, the same average number to bring down along as was used in the -- for the 25-building figure. So we understand it. We didn't make any adjustment on that.
We simply multiplied by the same number.
Q. So it's a revenue number and additional expenses, if any, are not accounted for in that number?
A. Not anymore than they are accounted for in the 25.
MR. BAKER: Okay. So we have may have some additional information to provide next week on that.
We don't have any further questions today.
(Mr. Macy and Mr. Drew step down from the witness stand.)
DIRECTOR NURU: Okay. We've come to the end of the period, I think, for public comment. So could everyone wishing to speak, please give me a show of hands so I can allow everyone to speak.
Okay. I will allow five minutes per person for public comment. Since this is public comment only, you do not need to be sworn in unless you also intend to present material you would like placed into the record.
If that is the case, I'll have the clerk swear you in.
Also when we come forward, please state your name so that the court reporter can enter it into the record.
Thank you, and let's proceed with our first speaker.
PUBLIC COMMENT BY COURTNEY CLARKSON
MS. CLARKSON: My name is Courtney Clarkson and I own a small apartment building on Telegraph Hill that I've owned for about 20 years, and I have four studios and one one-bedroom. I have five people living in the building.
So looking at your proposed charges for residential buildings, with 1- to 5-dwelling units, I pay an extra -- well, I will pay for the five units just as a basic service charge $100 dollars a month. Plus, I will have -- since I have one 64-gallon can, that's another $21 -- and one 64-recycling, and a 32-compost.
Now it doesn't seem fair, and I'm sure you will agree, that apartments that are one-person studios should be paying the same base amount per month as, for instance, a flat with four or five bedrooms and eight or ten people living in it. The last time you had a rate increase of $5 dollars, and then of course it went to
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Thank you very much.

DIRECTOR NURU: Thank you.
Next speaker, please.

PUBLIC COMMENT BY NONI RICHEN

Ms. RICHEN: Good morning. My name is Noni Richen. I'm president of the Small Property Owners of San Francisco. I'm also the owner of a small four-unit building in Western Addition. I want to thank you for all the outreach you've done. Mr. Giusti from Recology and Ms. Dilger from the ratepayers office have visited both our board meeting and our public meeting, and we do appreciate that.

But do I object to testifying on the rates that are proposed. Because at our public meeting, we had our own advocate say and show the rate chart that we'd been given that even though Recology is saying that increases are around 16%, for our two-to-five-unit buildings, it's actually around 50% percent. And I want to point out to you that we are being forced to comment on a structure that we don't know what it is because Mr. Giusti said it's changing, but we don't know what to what.

Now at present, when we want to increase -- when we receive an increase, we can go to the Rent Board and ask for a pass-through. This involves often hiring someone to help prepare all of the forms for us, and then even though we are successful, we can only pass-through 50% of the increase. We have to do this every time there's an increase.

It may be a stereotype that landlords are rich fat cats, but I want to point out that in my own four-unit building, the rents that I receive for the entire building are similar to what the rates are for a friend receives for a one-bedroom condo. That's for the entire building. I'm basically in the hole if have I to do major repairs.

We are asking that, first, that we know exactly what we're being asked to pay for. And we also would like this Department to help us by approaching either the Board of Supervisors or the Rent Board or whoever it takes to allow us to pass these rate increases through to our tenants without any procedures.

We can do this now with bond issues. The water bond issue and the teacher bond issue, we can pass-through without any of these procedures. But right now, we can only pass-through with the procedures I mentioned.

I would also like to mention that the rent increases are around 1% per year. My tenants for two-bedroom apartments pay an average of $1,000 dollars a month. They've been there forever. I don't know how long I can continue doing businesses in this way.

So thank you very much for the outreach, but we do need to know what we're being asked to pay for at this time and we would like your help in passing the increases through to our tenants without having to go through these owners' procedures.

Thank you very much.

DIRECTOR NURU: Thank you.
Next speaker, please.

PUBLIC COMMENT BY STEVE DELLS

Mr. DELLS: Good morning. My name is Steve Dells. I live here in San Francisco. And I just want to follow up with what Noni just said. I'm a member of the Small Property Owners and I live in the building that I own. It's a two-unit building.

I was surprised to see the two-to-five-unit increases through to our tenants without any procedures.

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So thank you very much for the outreach, but we do need to know what we're being asked to pay for at this time and we would like your help in passing the increases through to our tenants without having to go through these owners' procedures.

Thank you very much.
MS. DAWSON: I think he's fine. He just couldn't make it today.

MR. PILPEL: Okay, just checking.

And while we're gathering that, I want to correct a misstatement that I made at a previous hearing. My understanding at the time was that the 8-gallon minimum for compostables currently applied to apartments. Apparently it does not. It's currently a 4-gallon minimum, and the proposal would be to increase that to 8; so I misunderstood. I misspoke.

I apologize for that. I'll try to not to do that in the future.

So thank you. So on Exhibit 76, on the back, there's a detailed migration analysis. And that's what shows -- in the column labeled "C" for "compostables," under "July 16 Gallons Per Unit," that's where it shows less than 8 in all cases. So it seems to me that analyzing the number of units there, the number of gallons less than 8, that some detailed analysis would suggest to me that there are -- with the increase to an 8-gallon minimum compostable service, that would yield some fairly significant revenues from the apartment sector just by that change. And I'm not sure if that's incorporated in the model or if Staff and the consultants can spend some time looking at the revenue assumptions there. I think that explains it, unless you've got further questions on that point. Let me move on.
Or not move on. Okay, just a couple of other points I wanted to touch on then. The language about CEQA in the report only references the rate increase itself. And the 15278 exemption, I think there should be an additional line that -- capital projects that involve actual construction will be subject to further CEQA review based on the permitting requirements.

Just to conclude then, on anaerobic digestion, which was talked about a little bit this morning, I can provide an example next week. There are two projects that are currently in planning and construction in Alameda County: one at the Altamont Landfill that we just left that has some minor controversy, and a different project at the Davis Street transfer station which is engendering a little more controversy which actually would site an anaerobic digester and process more of the compostables at that facility in an integrated fashion.

So I hate to think that Alameda County is five years ahead of us, but I suppose that's entirely possible. I can provide the staff report from the Alameda County Waste Management Authority that looked at that project and it might give us some insight into where anaerobic digestion is going. And that relates to the 30% diversion goal that was suggested as a goal that was suggested as a 30% diversion goal that was suggested as a

MS. DILGER: Mr. Marc Christensen was here earlier. Unfortunately he was not able to make it back for public comment. I'm sure that's why we're ending early -- Murphy's law -- and he asked that I read it instead. It's dated April 10th, 2017.

"Dear Hearing Officer,

"Although I am president of a San Francisco neighborhood organization, I am writing this protest as a single ratepayer without any input from my local association.

"While I believe that Recology is entitled to a rate increase, I firmly believe that the proposed rate increases that are being requested are excessive. I understand that the proposed rate increases are to cover increased costs and improvements in services and for facility upgrades.

"I further understand that the proposed rate increases include charges the City has requested to pay for costs incurred by certain City departments for solid waste management.

"The rate increases being proposed would mean an increase in excess of 22% over the next three years -- July 1st, 2017, through July 1st, 2020 -- while also seeking annual Cost of Living Adjustments similar to those approved in prior rate orders.

"I have attended, listened to testimony, and spoken at the technical workshop at City Hall on February 28th, and again at a March 15th hearing both regarding the rate increases. I have offered several suggestions that, if implemented by Recology, could save several million dollars each year.

"One proposal would be to better secure their blue recycling bins, to educate the public on recycling theft including overall financial loss for Recology, and to work with City agencies to prosecute those individuals who daily pilfer curbside recyclables from the blue bins.

"Recycling proposal would have Recology work with residents to suggest placement of all three bins on the sidewalk next to neighbor's bins to allow for less trucks stops, faster loading, and thus saving of pickup time and fuel.

"I agree that the pickup of recyclables should be from one truck, that a combination of 60% compost and 40% trash pickup is
cost-effective leading to an eventual zero waste goal.

"A more palatable solution for rate increases and one that gradually increases the rates over a three-year period would be 6% in July 2017, 5% in July 2018, and 5% July 2019 with a cumulative rate increase of well over 16%. This suggestion is reasonable and gradually implements the rate increases for the ratepayers.

"Furthermore, Recology must do a better job of educating their customers on why the rate increases are justified.

"Sincerely, Marc Christensen."

I'd like to enter this as an item per his request.

DIRECTOR NURU: Okay. Well noted.

Any other public comment?

MR. PRADHAN: That will be Exhibit 83.

Oh, I'm sorry --

DIRECTOR NURU: 84?

MR. PRADHAN: Yes, 84.

(Exhibit 84, "Marc Christensen letter [Public]," was admitted into evidence.)

DIRECTOR NURU: If that's our last speaker, I will go ahead and close public comment at this time.

I'd like to continue this hearing to April 26th at 8:00 a.m. in the same room, Room 400. We will pick up with the agenda items listed for that day. I want to thank everyone for participating in these proceedings, and our meeting is adjourned.

Thank you.

(Ending time: 9:38 a.m.)

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