



September 11, 2020

Mr. George Rodericks  
City Manager  
Town of Atherton  
150 Watkins Avenue  
Atherton, CA 94027

Sent Via E-Mail

Re: Franchise Agreement for Recycling, Organics and Solid Waste Collection Services

Dear Mr. Rodericks,

After careful review of the financial information presented at the Town of Atherton's Study Session on September 2, 2020, I discovered that some of the calculations noted in your presentation appear to be inaccurate. Specifically, Rate Year 2021 Total Compensation presented is approximately \$350,000 higher than the Total Revenue Requirement identified by the SBWMA (See Attached). This calculation error appears to be included in the SBWMA Post-Collection Costs.

The 2021 Post-Collection Cost identified by the SBWMA is \$1,328,073. The presentation spreadsheet used to project the Recology/SBWMA Post Collection Cost shows \$1,624,000. The Total Compensation for Rate Year 2021 identified by the SBWMA is \$3,271,895. If you include the additional \$169,939 of Unscheduled and Intermittent Services (elective services in Attachment Q), the Total Compensation becomes \$3,441,840. The Total Compensation for Rate Year 2021 identified on the Town's projection sheet is \$3,785,531, which is a \$343,691 increase over the SBWMA's recommended Rate Year 2021 Total Compensation. The chart below identifies the line items discussed above:

	<u>SBWMA Recommendation</u>	<u>Study Session</u>
Collection Compensation	\$1,612,762	\$1,612,317
Post Collection Fees	\$1,328,073	\$1,624,275
Agency Fees	\$ 331,060	\$ 379,000
Unscheduled Fees	<u>\$ 169,939</u>	<u>\$ 169,939</u>
Total Compensation	\$3,441,840	\$3,785,531

If the Town were to project these corrected compensation line items using the same projection criteria identified on the Town's original calculation, the 15-year life of the Recology/SBWMA contract drops from \$87,544,000 to \$79,375,573, an **\$8M decrease** in the revenue requirement. In addition, there would be an approximate **\$4,000,000 in savings compared to the projected 15-year Green Waste Recovery amounts of \$83,315,000.**

Based upon these corrected lifetime costs, not only would the Town save the rate payers approximately \$4M, it would also allow the Town to retain the \$1.8M of Rate Stabilization fees already collected by the Town and paid for by the rate payers. This combined \$5.8M savings would save the Town's rate payers on average \$385,000 per year or an estimated \$14/month per resident throughout the 15 years of the Agreement.

As mentioned above I have included Table 8 of the SBWMA Draft Report Reviewing the 2021 Recology San Mateo County Compensation Application showing the Town's Rate Year 2021 Revenue Requirement as well as an updated projection sheet, which calculates the \$79,375,573 15-year total compensation.

As an employee-owned company, celebrating our 100-year history of leadership and innovation in the recycling and solid waste industry, I felt that it was important that the Town be fully aware of our commitment to the residents of Atherton. I also felt it imperative to share this valuable information so that the Town is apprised of the financial impacts associated with changing service providers when making this critical decision.

We value the Town's leadership and remain dedicated to providing quality service to our customers. Should you have any questions, or wish to review our calculations, please do not hesitate to contact me. I am also available to present this information at a City Council Meeting or Study Session.

On behalf of the employee-owners of Recology San Mateo County, I thank you for your time and consideration in reviewing the information presented.

Regards,

A handwritten signature in blue ink, appearing to read 'Mike Kelly', with a stylized flourish at the end.

Mike Kelly  
General Manager

Cc: Rick DeGolia, Mayor  
Elizabeth Lewis, Vice Mayor  
Bill Widmer, Councilmember  
Michael Lempres, Councilmember  
Cary Wiest, Councilmember  
Anthony Suber, Deputy City Manager/City Clerk  
Joe LaMariana, Executive Director, SBWMA  
Jay Benton, Chairman of the Board of Directors, SBWMA  
Alicia Aguirre, Vice-Chair of the Board of Directors, SBWMA



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

SBWMA							
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY							
as of 08/10/2020		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	\$26,366,787	\$1,771,433	\$3,617,793
A.2	Total Recology Compensation	\$2,023,225	\$11,701,064	\$5,906,082	\$14,623,981	\$1,107,810	\$2,479,713
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	\$1,246,425	\$3,909,796	\$101,430	\$171,193
A.6	Total Pass-Through Costs	\$1,292,165	\$9,795,978	\$3,960,050	\$11,703,215	\$646,867	\$1,313,111
A.7	2021 Revenue Requirement	\$3,316,390	\$21,497,042	\$9,866,132	\$26,327,197	\$1,764,676	\$3,797,824
A.8	2021 Surplus/(Shortfall) estimated	(\$76,661)	(\$110,674)	(\$666,225)	(\$961,410)	\$16,756	(\$176,031)
A.9	Agency Fees on A.8 Shortfall	(\$3,828)	(\$15,093)	(\$67,947)	(\$38,466)		(\$8,762)
A.10	Rate Adjustment Percentage (Associated with 2018 estimated Surplus/Shortfall)	2.5%	0.6%	6.8%	3.9%	-0.9%	5.1%
<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	\$9,770,697	\$24,983,376	\$1,618,293	\$3,380,404
C.2	Subtotal Surplus/(Shortfall) (A.1 - C.1)	\$106,197	(\$7,726)	(\$470,791)	\$382,412	\$153,139	\$237,388
C.3	Rate Adjustment Percentage (C.2 / A.1)	-3.3%	0.0%	5.1%	-1.5%	-8.6%	-6.6%
<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	(\$68,566)	\$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	\$8,909,793	\$23,647,639	\$1,384,866	\$3,286,737
F.2	Total Surplus/(Shortfall) (A.1 - F.1)	\$572,429	\$1,697,464	\$390,114	\$1,718,248	\$386,676	\$332,066
F.3	Total Rate Adjustment Percentage (F.2 / A.1)	-17.7%	-7.9%	-4.2%	-6.8%	-21.8%	-9.2%

Recology San Mateo County  
Town of Atherton 15 year projection

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	TOTAL
Recology Collection Compensation	1,612,762	1,693,400	1,778,070	1,866,974	1,960,322	2,058,338	2,161,255	2,269,318	2,382,784	2,501,923	2,627,019	2,758,370	2,896,289	3,041,103	3,193,158	34,801,087
SBWMA Post Collection Costs	1,328,079	1,460,887	1,606,976	1,719,464	1,839,826	1,968,614	2,106,417	2,253,866	2,411,637	2,580,452	2,761,083	2,954,359	3,161,164	3,382,446	3,619,217	35,154,487
Agency Fees	331,060	394,000	420,000	441,000	463,050	486,203	510,513	536,038	562,840	590,982	620,531	651,558	684,136	718,343	754,260	8,164,513
Unscheduled and Intermittent Services**	169,939	77,539	77,539	77,539	77,539	77,539	77,539	77,539	77,539	77,539	77,539	77,539	77,539	77,539	77,539	1,255,485
Total Compensation	3,441,840	3,625,826	3,882,585	4,104,976	4,340,738	4,590,694	4,855,724	5,136,762	5,434,800	5,750,896	6,086,173	6,441,826	6,819,128	7,219,431	7,644,174	79,375,573

\*\* - Not included on the SBWMA recommendation. Included same amount as utilized on the Town's presentation