



May 11, 2020

Jill Duffy
Executive Director
Humboldt Waste Management Authority
1059 W. Hawthorne St.
Eureka, CA 95501

Re: Recycling Service Fee Adjustment for 2020-2021

Dear Ms. Duffy,

We appreciate the HWMA's continued effort in reviewing Recology's Service Fee adjustment request under our Recyclable Materials Processing Agreement. We look forward to continuing to work with you and your team to conclude the process quickly and ensure that the HWMA is comfortable that our request is fully justified and compliant with the contract.

In the Staff Report for approval of the Authority's FY 20-21 Budget at the May 14 meeting, it was suggested to delay approving the new Service Fee (aka Recyclable Materials Processing Fee) until the HWMA's review is completed, in June or July. We respectfully request that the HWMA instead **conditionally approve the Service Fee requested by Recology in its application (\$85.65/ton) as a "not-to-exceed" amount**, on the understanding that this number will either be validated or reduced, but not increased, as a result of the ongoing review process.¹

The reason for doing this is that the Service Fee is part of the rate adjustment mechanism in the HWMA Member Agencies' franchise agreements with Recology. If the Service Fee is not approved until June or July, it will be too late to incorporate the Service Fee adjustment into the collection rate adjustments due to take effect July 1. This means there would have to be a second collection rate adjustment – and related review and approval processes in all jurisdictions – sometime in the 3rd quarter of 2020. This would be a substantial administrative burden for all concerned and would frustrate ratepayers.

We believe the requested fee adjustment is **fully justified based on our actual processing costs and consistent with the Processing Agreement**. Nevertheless, if this amount is conditionally approved, and it is later determined that the Agreement requires a lower number, then Recology will reduce collection rates and/or issue a credit to customers to make up for the difference. These steps would not require any new approval process. Our intention is not to achieve any kind of windfall, but to ensure that the July 2020 collection rates are set at the right level.

At the April 9 meeting, some HWMA Members expressed concern that the requested increase in the Service Fee would be burdensome for ratepayers. While this is understandable, the Service Fee accounts

¹ The \$85.65 number is contingent on the HWMA continuing to provide a 15% Residual Waste Disposal Credit off the \$129.01 Disposal Fee at the Hawthorne Street Transfer Station, for disposal of residue from processing of HWMA recyclables. If the tip fee were increased or the credit decreased, the Service Fee would need to be increased.

for only a small portion of collection rates. We estimate that the increase would affect collection rates by approximately 1%, and in some jurisdictions significantly less.

We would also like to clarify a few issues regarding the Service Fee adjustment that were discussed with the Board at the April 9 meeting:

1. Financials

There was a concern that Recology was “cherry picking” the data included in the Service Fee adjustment submittal. It is true we did not include a full 12 months of costs, however **that was for the benefit of the HWMA**. From late 2018 to July 2019, Recology’s costs were higher than normal due to a sort line upgrade. Recology absorbed these extraordinary costs and only submitted costs that were reflective of normal operations. Had Recology included the full 12 months of costs, the Service Fee would have been over 30% higher than currently proposed.

2. Residual Tonnages

An issue was raised regarding perceived discrepancies in reported residual tonnage versus actual residual tonnage and that Recology provided no backup for residual tonnage data. In fact, the residual tonnage figures in our Service Fee adjustment submittal are based on the facility’s actual residual tonnages and the results of periodic waste audits, all of which were reported to the HWMA throughout the year. The misunderstanding may have arisen from confusion between the 15% Residual Waste Disposal Credit – a purely financial metric – and the actual percentage of residual material produced by the facility (21%) or by HWMA tons (23%).

3. Freight to Market Costs

The Board presentation noted a significant apparent increase in freight to market costs compared to estimates prepared at the time the Processing Agreement was entered into in 2018. Yet the relevant inquiry for fee adjustment purposes is not how much a certain line item increased or decreased, but whether the numbers presented in the fee adjustment application reflect actual costs during calendar year 2019. They do. To the extent the 2018 estimates were too low, Recology has absorbed the higher costs over the past 18 months, which has benefited the HWMA Members and their ratepayers.

4. CPI

The Board presentation indicated that the inclusion of CPI for certain items was not allowed. Exhibit B Section 6 of the Agreement states that line item adjustments to the component costs of the Service Fee can be made by either applying a CPI increase or by making a good faith effort to project costs for the coming year. Consistent with the contract, Recology applied CPI to certain items to account for normal price increases.

5. Duty to Adjust Fee

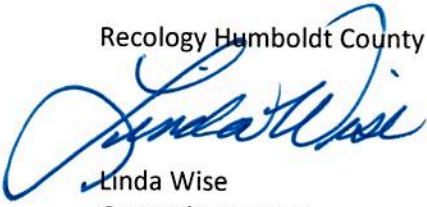
While we are not certain, we believe there may have been a misconception about whether the HWMA is obligated to approve a Service Fee adjustment. Exhibit B Sections 1 and 5 of the

Agreement are clear that adjustments pursuant to the methodology in the contract are not optional. The methodology was designed to ensure that the Service Fee reflects the true cost of providing the service. This is fair both to the HWMA Members and ratepayers and to Recology.

We believe our proposed solution of conditionally approving the requested Service Fee is the best way to minimize disruption to the rate adjustment processes for the HWMA Members, while ensuring a fair and comprehensive review of Recology's application. We appreciate the HWMA's efforts to review our application thus far and look forward to our continued partnership to create and promote local recycling opportunities in our community. As always, we are happy to respond to any questions regarding this request or any other items.

Very truly yours,

Recology Humboldt County



Linda Wise
General Manager

Cc: Sofia Pereira, City of Arcata
Elaine Hogan, City of Blue Lake
Leslie Castellano, City of Eureka
Michael Sweeney, City of Ferndale
Rex Bohn, County of Humboldt
Frank Wilson, City of Rio Dell
Ed Farewell, Recology