

Recology Material Mistakes or Errors Disclosure (December 2, 2024)

Identified Confirmed Material Mistakes or Errors

On October 31, 2024, Recology San Francisco (“RSF”), Sunset Scavenger Company (“RSS”), and Golden Gate Disposal & Recycling Company (“RGG”) (collectively, the “Combined SF Companies”) disclosed that they were investigating two Suspected Material Mistakes or Errors. The Combined SF Companies have investigated these Suspected Material Mistakes or Errors and determined that they are Confirmed Material Mistakes or Errors.

Material Mistake or Error 1 involves the projections of payroll expenses for RSF, RSS, and RGG for RY24 and RY25 in the 2023 Rate Application. This error occurred because of the difference between the rate year, which begins on October 1, and the timing of union wage increases, which occur on January 1. As a result of this timing difference, a rate year contains one quarter in which payroll expenses are incurred at lower prevailing wages and three quarters in which payroll expenses are incurred at higher prevailing wages. For RY24 and RY25, the projection of payroll expenses did not take this timing difference into account. This resulted in projected RY24 and RY25 payroll expenses that were lower than they should have been.¹

Material Mistake or Error 2 involves the projections of payroll tax expenses for RSF, RSS and RGG for RY24 and RY25 in the 2023 Rate Application. Because projected payroll taxes should be calculated as 7.5% of payroll expenses, the error described in Material Mistake or Error 1 also resulted in an incorrect projection of payroll tax expenses.

Material Mistake or Error 3 is a separate error in the projections of payroll tax expenses for RSF, RSS and RGG for RY24 and RY25 in the 2023 Rate Application. When payroll expenses projections were adjusted for the 2023 Rate Application, payroll tax expenses projections were not similarly adjusted so that they would reflect 7.5% of payroll expenses in each of RY24 and RY25. As a result of this error, payroll tax expenses for these years were understated in the 2023 Rate Application.

The Material Mistakes or Errors described above are set forth in Attachment A.

¹ In addition to the error described in this paragraph, the projections of payroll expenses for RSS and RGG in the 2023 Rate Application are incorrect for the separate reason that they do not include payroll expenses associated with certain additional employees. The Rate Board approved the hiring of these additional employees in the Rate Order adopted on August 31, 2023. However, the expenses associated with these additional employees were not permitted to be included in the rate projections prior to adoption of the Rate Order. These additional projected payroll expenses are \$1,663,285 for RY24 and \$1,721,500 for RY25, after adjusting these figures for the timing error described above. Because projected payroll taxes are calculated as 7.5% of payroll expenses, there are additionally incorrect projections of payroll tax expenses of \$124,746 for RY24 and \$129,113 for RY25.

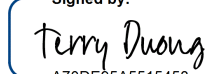
Similarly, increased projected health insurance expenses – resulting from an update to the methodology used to estimate these costs – were not permitted to be included in the rate projections prior to the adoption of the Rate Order. These additional projected health insurance expenses are \$373,300 for RY24 and \$711,480 for RY25. Note that the amounts in the preceding sentence differ from the amounts presented to the City in 2023 as part of discussions regarding this update to the methodology used to estimate projected health insurance costs.

Actions to Address These Material Mistakes or Errors

Because Material Mistakes or Errors 1, 2, and 3 all resulted in lower rates than would have been the case in the absence of these errors, a correction of these errors would result in rate increases. The Combined SF Companies do not believe that actions to address these errors are appropriate at this time.

At the request of the Refuse Rate Administrator, the Combined SF Companies plan to issue revised financial rate reports for Q1 and Q2 RY24 concurrently with year-end RY24 reporting.

I declare under penalty of perjury, under the laws of the State of California, that all statements contained in this Disclosure of Material Mistakes or Errors are true and correct, to the best of my knowledge. Executed this 2nd day of December 2024, in San Francisco, California.

Signed by:

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Terry Duong
Regional Controller, Recology San Francisco Companies

**Material Error Disclosure
Increase (Decrease)**

Adjustment #	A	Line Item	Rate Application	
			R <y>2024 Projections</y>	R <y>2025 Projections</y>
1	SSGG	Salaries and Wages	\$ 1,201,100	\$ 1,848,422
1	RSF	Salaries and Wages	\$ 864,973	\$ 1,319,472
2	SSGG	Payroll Taxes	\$ 90,082	\$ 138,632
2	RSF	Payroll Taxes	\$ 64,873	\$ 98,960
3	SSGG	Payroll Taxes	\$ 429,307	\$ 441,548
3	RSF	Payroll Taxes	\$ 116,482	\$ 119,540

* Adjustments are in reference to the "RY2024 RRA City Template Version 8.4.2023" file on the Refuse Rate Administrator's website.