



Recology Announces Correction to Mistake in San Francisco Rates

*Recology Brought Mistake to Attention of San Francisco City Attorney;
Will Pay Back Customers, Adjust Rates Going Forward*

SAN FRANCISCO, Calif, March 4, 2021: Recology today announced that it has reached a resolution with the San Francisco City Attorney addressing a mistake in the 2017 rate calculation for certain of Recology's San Francisco customers.

Effective April 1, 2021, Recology will reduce rates by 6.796% for all affected San Francisco customers to correct the mistake. Additionally, subject to the approval of the San Francisco Board of Supervisors, Recology will issue payments to current and former customers affected by the mistake:

- Payments to current customers will be made by September 1, 2021.
- Payments to former customers will be made on a rolling basis. The company will work diligently to reach all former customers and will report to the City on a monthly basis as to all paid and unpaid balances.

"We value our customers, and making them whole for this mistake is our top priority," said Sal Coniglio, Chief Executive Officer of Recology. "As soon as we learned of the mistake, we took immediate action. We are grateful to the City Attorney for helping us reach a resolution that benefits our San Francisco customers. We are reviewing our internal processes and working with the City to ensure an issue like this never reoccurs."

In total, Recology will pay current and former San Francisco customers \$86.6 million, plus interest, in order to account for the miscalculated rates that have been in effect since July 1, 2017. Actual payments will vary based on a number of factors, including the service level and customer type. Customers will be notified of their payment amounts in the coming months.

Background on the 2017 Rate Application Miscalculation

By City law, Recology's San Francisco rates are set prospectively through a public ratemaking process. The rate model identifies revenues at current rates, and projects needed revenues for future rates, in order for Recology to recover its costs and earn a set profit of about 9%.

The rates are designed to include an amount that is collected for City-directed purposes and passed on to the City. Recology does not earn a profit margin on these passthrough amounts.

The 2017 rate model spreadsheet supporting Recology's rate application did not accurately account for certain revenue that is passed on to the City in calculating revenues at current rates. The inadvertent omission of these amounts resulted in a rate increase that was higher than was necessary – to cover the difference between revenue at current rates (which was incorrectly calculated, due to the omission) and projected net revenue requirements.

This mistake was not discovered during the 2017 ratemaking process by any of the many entities involved in the process, which included Recology, the City Attorney's Office, multiple City agencies, including the San Francisco Department of Public Works (SFPW), and independent consultants retained by SFPW.

Recology's current senior leadership and Board of Directors learned of the mistake in November 2020 through an unrelated investigation conducted by Recology's outside counsel. The investigation also found that certain staff in Recology's San Francisco operations became aware of the mistake as early as December 2018, and that they informed both SFPW and the City's Department of the Environment (SFE) at that time. Shortly thereafter, Recology staff also informed the independent rate consultant retained by SFPW in connection with the 2017 ratemaking process.

After learning of the mistake in November 2020, Recology leadership promptly brought the issue to the City Attorney's Office, even as Recology's outside counsel continued to investigate the matter.

Recology's investigation has not identified any evidence indicating that the mistake was intentional.

Additional Components of Today's Resolution

Separate and apart from the rate mistake, today's settlement also addresses donations, gifts, and meals provided directly or indirectly to City officials. Recology has agreed to not make any gifts of any value to any City employee or Officer or make any behested payments, and agreed to heightened disclosure requirements.

As part of the resolution with the City – and in relation to both the gifts issue as well as the rate miscalculation – Recology has agreed to pay a settlement amount of \$7 million, without admitting any liability.

Recology has a new CEO as well as a new Chair of its Board of Directors, both effective January 1, 2021. The Company has already implemented significant measures to improve its compliance policies, training, and procedures.

"We are confident in Recology's current leadership and have implemented measures to improve the company's commitment to a culture of service and compliance. Today's resolution is in keeping with the actions we have taken over the course of the last year," said Christa Steele, Chair of the Recology Board of Directors. "At Recology, we are proud to serve our communities and will continue to take seriously our responsibility to our customers."

Recology is a 100% employee-owned integrated resource recovery company providing materials collection, processing, and outreach and education to customers throughout California, Oregon, and Washington. Recology finds new ways to process and reuse what was once considered waste, collecting and recovering recyclables to be re-purposed into new products. Recology has more than 3,700 employees, who serve over 150 communities.