



**A Public Agency**

CONSENT CALENDAR



**DRAFT MINUTES**

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
MEETING OF THE BOARD OF DIRECTORS  
February 27, 2014 – 2:00 p.m.  
RethinkWaste Board Room at the Shoreway Environmental Center

**Call to Order: 2:01 PM**

**1. Roll Call**

Agency	Present	Absent	Agency	Present	Absent
Atherton	X		Menlo Park	X(late)	
Belmont	X		Redwood City	X	
Burlingame	X		San Carlos	X(late)	
East Palo Alto	X(late)		San Mateo	X	
Foster City	X		County of San Mateo	X	
Hillsborough		X	West Bay Sanitary District	X	

**2. Public Comment**

Persons wishing to address the Board on matters NOT on the posted agenda may do so.

Each speaker is limited to two minutes. If there are more than five individuals wishing to speak during public comment, the Chairman will draw five speaker cards from those submitted to speak during this time. The balance of the Public Comment speakers will be called upon at the end of the Board Meeting.

If the item you are speaking on is not listed on the agenda, please be advised that the Board may briefly respond to statements made or questions posed as allowed under The Brown Act (Government Code Section 54954.2). The Board's general policy is to refer items to staff for attention, or have a matter placed on a future Board agenda for a more comprehensive action or report and formal public discussion and input at that time.

None

**3. Approval of Consent Calendar:**

Consent Calendar item(s) are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Board, staff or public request specific items be removed for separate action. *Items removed from the Consent Calendar will be moved to the end of the agenda for separate discussion.*

- A. Adopt the January 23, 2014 BOD Meeting Minutes
- B. Approval of Quarterly Investment Report as of 12/31/13
- C. Resolution Approving Office Lease Agreement at San Carlos Library

Motion/Second: Dehn/Ross

Voice Vote: All in favor

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park				X
Belmont	X				Redwood City	X			
Burlingame	X				San Carlos				X
East Palo Alto				X	San Mateo	X			
Foster City	X				County of San Mateo	X			
Hillsborough				X	West Bay Sanitary Dist	X			

4. **New Business:**

A. Executive Director FY1314 Goals

Executive Director McCarthy gave an overview of the set of goals presented to the Board. He noted that these goals had been originally drafted under the previous board, and then revised with feedback from this Board.

Vice Chair Dehn thanked the Board members that participated for their input.

Member Olbert now present.

Chair Widmer asked for an earlier March date for goal number 5, so that strategic plan information could be considered in the budget process.

Executive Director McCarthy noted that staff would be coming to the Board with the draft program budget in April of 2015. The goal would be to complete the work in time for the plan to be incorporated into the budget, but having the lengthy document fully complete by then would be challenging.

Vice Chair Dehn noted that the goals stated preparing an initial plan and asked if the Executive Director would be more comfortable with the suggested March date, emphasizing initial.

Executive Director McCarthy clarified that by April the Board would have an outline of how staff plans to develop the long range plan and a year from April would be the final plan.

Member Slocum asked if that meant that the Chair's suggested date change was acceptable.

Executive Director McCarthy replied yes, that the March date was fine.

Member Foust asked if there are benchmarking metrics to determine how each goal is met.

Vice Chair Dehn answered that in the original 10 goals that the Executive Director presented to the Board, there were metrics to back them up. She noted that these are the 8 overall goals that were determined by the subcommittee, and that metrics need to be assigned to them, but the committee agreed that they wanted to present the overall goals to the board.

Member Foust clarified that the subcommittee will determine the metrics.

Member Carlton now present.

Vice Chair Dehn answered yes, with the Executive Director's input, and added that if any Board members had ideas in terms of measurement to discuss those with her.

Chair Widmer reminded the Board that the Executive Director had started this process with the old Board, and the new Board wanted some refinement to the goals without making the Executive Director start over with only half the year left to complete the goals, so the subcommittee was taxed with trying to dovetail everything together.

Member Olbert suggested for the next round of goal setting that once the goals are agreed upon by the subcommittee that they are given to the Executive Director to assign measurements.

Member Dehn noted that the Executive Director has been part of the process from the beginning and will continue to be.

Member Deal made a motion to accept the Executive Director's goals.

Member Slocum seconded the motion.

Voice Vote: All in Favor.

#### B. Discussion on Interest Calculations for Rate Revenue Surplus/Shortfall

Staff Moran gave an overview of the staff report and background on the issue. He noted that at the end of each year Recology submits a revenue reconciliation that compares what they were owed to what they were actually paid. The reconciliation process creates a surplus or a shortfall by Agency. In 2011 and 2012 Recology paid interest to those agencies with a surplus, and charged interest where there was a shortfall. He added that in 2011 there were only 3 agencies with a surplus, in 2012 there were 9, and it became evident that Agencies were building up large surpluses. In looking at the contract, interest is only owed on a shortfall. So, staff and Recology discussed this matter and Recology developed a fair and equitable solution.

Member Gauthier now present.

Mario Puccinelli noted that this discussion address a situation that was neither intended nor contemplated and proposed 3 scenarios to address the issue:

- Scenario 1 – if an Agency adopts rates lower than the SBWMA recommends or late, then interest would be owed to Recology as described in section 11.07 of the Franchise Agreement.
- Scenario 2 - if an Agency adopts rates at or above the SBWMA recommendation no interest would be owed to Recology even if there is a shortfall.
- Scenario 3 – if an Agency adopts rates above the SBWMA recommendation, then Recology would not pay interest on any surplus.

He also added that Recology will require a 60-day notification to return any surplus funds to an Agency.

Member Deal asked when Agencies would be notified when a surplus has been created.

Staff Moran answered that the rate report issued in September has a projection, so that would be an Agency's first clue that there would be a surplus or shortfall, but when the final reconciliation report is issued in March the final numbers would be available.

Member Ross clarified if a City wants their surplus they can get it they just need to give notice.

Mario Puccinelli answered yes with 60-days notice.

Member Olbert asked if this issue is not addressed in the contract, and questioned if this is clarifying interpretation of the contract.

Mario Puccinelli answered yes.

Member Widmer commented that looking over table 1, it looked like 8 of the 12 agencies had paid more interest than received, and requested it be a zero sum game, noting that no Agency should receive more interest than they paid in. He also asked what the logic was for cutting the interest off in 2012, and not sometime in 2013 when the first discussions happened.

Mario Puccinelli noted that Recology is waiving the interest payments that were made for 2011 and 2012 on surplus amounts.

Executive Director McCarthy added that he thought what Recology was proposing was fair. He noted that Recology did inadvertently pay interest that they were not obligated to and is not asking for it back. He also added that the books on 2011 and 2012 have already been closed, and the thought process is to not go back and change something in the past, but since the 2013 revenue reconciliation hasn't happened yet to try and agree on an understanding going forward.

Chair Widmer reiterated that his assumption was that it was going to be a zero sum game.

Member Olbert asked if any Agency that might have expected to receive interest income had contacted staff.

Executive Director McCarthy stated that his staff had not been contacted, but noted that the 2013 numbers are still estimates.

Mario Puccinelli said that no Agencies have contacted Recology either regarding expected interest income.

Member Olbert asked if Recology had basis to send an invoice to a City and ask for money back.

Counsel Lanzone stated that it's up to each individual agency on how they would like to reconcile interest. He noted that this Board would act in advisory capacity to the Agencies.

Member Bronitsky asked if all Agencies needed to agree on how to settle.

Executive Director McCarthy noted that the 2013 revenue reconciliation hasn't occurred yet, so the conversation has been started to come to a common understanding on how the interest should be handled before that reconciliation happens. He noted that this item would come back to the Board for a vote on a common understanding but that it wouldn't be binding, because each Agency separately holds an agreement; Member Agencies need to separately approved any amendments to their franchise agreements

Member Olbert added that he would like to see the SBWMA Board's decision be advisory. Adding that he supported Recology's approach on leaving 2011 and 2012 alone, and starting with 2013.

Counsel Lanzone suggested an informal contract interpretation be adopted by each agency rather than a formal amendment to the Franchise Agreements.

Member Foust requested that what Counsel Lanzone suggested be presented as part of what the Board votes on.

Counsel Lanzone stated yes, that it would be part of what was brought back to the Board for a vote.

Chair Widmer reiterated that he would like to see it balance to zero and that was his understanding from the conversation in October.

Mario Puccinelli noted that he didn't recall the zero sum game conversation.

Staff Moran noted that it's not possible to have every agency come to a zero sum, and that specific conversations about an Agency should be had with Recology.

Executive Director McCarthy restated that if interest went both ways, it's never going to add up to zero, he thought that if Recology wanted to make it zero that would be between Recology and the Member Agency. He added that he thought what Recology was proposing for the 2013 rate year was a fair and equitable way to handle the issue going forward.

D. Formation of an Audit Adhoc Subcommittee

Chair Widmer gave an overview of the Executive Committee discussions, in which forming an Adhoc Subcommittee was recommended, and that it would be a joint TAC/Board Subcommittee.

Member Ross made a motion to form an audit committee with 3 Board Members preferably with financial backgrounds, and a TAC member that is a finance professional.

Member Gauthier seconded the Motion

Voice Vote: All in favor.

5. **Old Business:**

A. Consideration of Approval of Additional Third Party Tons into the Shoreway Environmental Center MRF

Staff Gans gave an overview of the staff report, and clarified that 3<sup>rd</sup> party tons come from outside the service area. He noted that the facility has been processing 3<sup>rd</sup> party tons since 2011, and that it has been a positive relationship thus far. He addressed why staff was requesting such a short term approval for an evaluation period, noting that this additional material means additional workers are required, and staff wants to monitor this on an evaluation basis before final approval. He also noted that staff is analyzing facility needs, and the host fee in this evaluation period as well. He added that with approval of this resolution the host fee would go from \$10/ton to \$10.30/ton to reflect CPI.

Member Olbert asked if the extended hours that the facility would be open had been discussed with the City of San Carlos in the context of the conditional use permit, noting that he brought it up with San Carlos, and that they are looking into it.

Staff Gans answered that Cal Recycle is the oversight agency for the Shoreway facility, and that they would be the agency that would manage that permit, and that it hadn't been discussed with the City of San Carlos.

Member Olbert asked if market price for host fee had been researched.

Executive Director McCarthy answered yes, and pointed members to Table 1 in the staff report. He explained that when the \$10/ton host fee was established the RFP process was just completed and there was a pretty good idea of market pricing. That price was established to keep the Shoreway facility competitive. He also added that the goal would be to get a higher host fee if possible.

Member Gauthier commented that the staff report does not mention specific daily amounts, and asked for clarification from staff Gans noting he had mentioned a specific amount.

Staff Gans answered that prior Board approval was capped at 100 tons/day or 15,000 tons/year, and the new tonnage would be a little bit more than 100 tons per day.

Chair Widmer wondered how SBR could plan not knowing the specific daily tonnage coming in to the facility. He also commented that the host fee is significantly lower than the tipping fee and wondered if the host fee was covering costs.

Staff Gans answered that the host fee sits on top of the processing fee; it's an additional charge on top of what SBR charges to process the materials.

Executive Director McCarthy added that the host fee is altogether different from the processing fee, and this agreement is between SBR and Recology.

Chair Widmer asked if they would be paying the same overhead rates in this transaction, as the Agencies are paying.

Staff Gans answered that SBR is essentially renting our facility at \$10/ton to process this material and at that price the wear and tear costs on the building and equipment are being covered. He also noted that per ton price in this arrangement is higher than what tipping fees are for the SBWMA Agencies.

Member Olbert asked if the Board had any influence over the fee SBR is charging Recology to process these tons.

Executive Director McCarthy stated there is indirect influence by ensuring SBR prices are competitive, and by brokering the arrangement.

Member Olbert took issue with the arrangement, noting that the arrangement couldn't be made if the Shoreway facility didn't exist, and thought that more of the revenue should be coming to the SBWMA.

Executive Director McCarthy noted that the risk is all on SBR. The goal is to charge a host fee that covers overhead cost. He noted that there is an interest in knowing what SBR might be charging Recology, to know if the market can withstand a higher host fee.

Member Olbert disagreed and thought that if SBR was making a large profit in the arrangement then some of that should come to the Agencies.

Executive Director McCarthy noted that the alternative method is that the SBWMA go out and broker the deals for 3<sup>rd</sup> party tons, and then the SBWMA would take all the risk.

Chair Widmer asked if at the end of the trial period SBR's costs would be available.

Executive Director McCarthy answered that staff could construct those costs, but there is not an obligation for SBR to share financial statements.

Member Slocum commented that wound up in all of this discussion is a contract that is currently being negotiated with VRS that very important to the County and providing 24 jobs to workers from the North Fair Oaks area. He asked to hear from SBR for their perspective, concern and judgment on the issue.

Dwight Herring noted that SBR is currently in negotiations with VRS, and that the current contract expired December 31<sup>st</sup>, and they are currently working under a letter of intent. He explained that the new volume has maxed out first shift capacity and requires a second shift. To attract enough workers the new contract will have an increased wage rate. He noted that the six month review period puts everything on hold to sign a contract with VRS. If ultimately the Board decides to not allow the additional tons or if the host fee makes it prohibitive for Recology to commit the tons, SBR would not be able to execute the contract, and first shift workers would have to go back to the lower wage rate in the previous contract.

Chair Widmer clarified if SBR was asking the Board not to do a 6 month trial.

Dwight Herring answered yes, that SBR doesn't agree with the 6 month trial, but would prefer a 30 day review to understand what the host fee should be. He would like to avoid language in the VRS contract that is contingent on the SBWMA review period.

Member Ross asked if Shoreway wasn't available where the tons would go, and how far would they have to truck their items.

Staff Gans answered San Jose, which is actually closer than our facility.

Member Ross asked why the 3<sup>rd</sup> party tons aren't being brought to the closer facility now.

Dwight Herring answered that SBR provides a back haul to reduce costs.

Vice Chair Dehn commented that she wasn't comfortable with a 30 day review, and asked if there are other reasons why staff has recommended a six month review.

Staff Gans answered that the past board approved 3<sup>rd</sup> party tons, but didn't approve a second shift. He noted that the only other thing that needs to be researched is the need for possible capital improvements

to accommodate the additional tonnage. Staff will be monitoring the need for additional space during the interim period. He also noted that within 60 days we would know the capital costs associated with this item, and if the Board wanted to take a fast track approach the agreement could be contingent on the host fee covering the costs of the capital improvement.

Executive Director McCarthy added that the infrastructure issue is an important consideration because if the materials come out of the building we are in violation of our permit. He added that he doesn't think a 30 day review is practical but a three to four month review is a possibility.

Member Ross asked if the SBWMA gets compensated for the back haul.

Dwight Herring answered that SBR does, but the SBWMA doesn't, SBR charges for fuel, labor and wear and tear for the difference in the route to pick up the material.

Member Ross asked if depreciation of the trucks was figured into the cost SBWMA pays SBR, and if depreciation of the trucks was being caused by the backhaul of material shouldn't the SBWMA receive some credit on depreciation.

Dwight Herring said he would look into that point.

Executive Director McCarthy added that at a host fee of \$10.30/ton, \$100,000 goes back to facility depreciation. He noted that from his perspective it's a lot of moving parts for only \$100,000 profit. He suggested more time to see if a higher host fee was possible, but not the single reason for requesting the review period.

Member Olbert asked what the consequences are of keeping tons at the current limits.

Executive Director McCarthy answered that if Shoreway can only take some of the tons, then all the tons might go somewhere else.

Vice Chair Dehn asked for further explanation of the first and second shifts.

Dwight Herring answered that in order to accommodate these tons a second shift needed to be added. VRS had to expand their available pool of workers, and an increased wage rate was offered to attract those workers, this raised the wage rate for all of the VRS workers. The difference in cost is being passed on to the 3<sup>rd</sup> party ton provider, so if those tons go away the higher wage rate goes away.

Member Olbert asked for clarification on what flexibility this Board has if the resolution is not approved, or don't approve it after the review period.

Executive Director McCarthy noted that we have a mutual interest to get this settled as soon as possible for all of the parties involved.

Counsel Lanzone noted that he didn't see any downside to the Agencies, to enter into the interim agreement. The discretion is going to be the Board to terminate it sooner since the agreement says up to six months.

Executive Director McCarthy added that the exposure lies with SBR and the agreement with VRS. Staff needs six months to figure the math out on the host fee and the capital improvement.

Vice Chair Dehn commented that she isn't comfortable with anything less than six months.

Member Carlton asked if six months would be enough time to do the research, and what happens at the end of the review period.

Executive Director McCarthy answered that sometime before the six month trial period is over, staff would come back to the Board with a recommendation for a long term contract, or not, but that he didn't see any barriers to a long term contract.

Member Carlton asked if there were any hidden costs which could cause the Board to cancel the contract.

Executive Director McCarthy said the only unknown cost is the cost of the capital improvement if it is needed.

Chair Widmer asked if Recology was fine with the six month terms.

Staff Gans answered that currently the tons are being accepted and Recology's pressure has been relieved with the interim arrangement. He noted that the SBWMA can cancel the 3<sup>rd</sup> party tonnage allowance at any time, based on terms in Exhibit A.

Mario Puccinelli stated that he is not a party to these agreements, but that at the moment there is no formal agreement between SBR and Recology. He added that the new material from Santa Clara that is requiring the second shift at some point in time without a written contract the tons could be at risk.

Executive Director McCarthy added that he has spoken with Mark Arsenault and he is comfortable with the interim terms, but if Recology gets a better deal the tons could go away. The goal is to continue to bring in additional tons, and to get the Board the additional information as soon as possible, and hopefully the Board will be comfortable with the new pricing arrangement.

Member Deal made a motion to approve staff recommendation.

Member Gauthier seconded the motion

Roll Call Vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park	X			
Belmont	X				Redwood City	X			
Burlingame	X				San Carlos		X		
East Palo Alto	X				San Mateo	X			
Foster City	X				County of San Mateo	X			
Hillsborough				X	West Bay Sanitary Dist	X			

**6. Staff Updates**

- a) Update on Labor Issues

Executive Director McCarthy stated that both contractors have come to terms with their drivers, and that two contracts were still being negotiated.

- b) Potential Future Board Agenda Items
- c) Check Register for January 2014

Chair Widmer discussed why this was being added to the staff updates, and noted that it added a level of transparency.

Member Bronitsky asked what the policy is for out of the ordinary consultant work.

Executive Director McCarthy answered that any contract above his spending authority would come to the Board for approval.

Member Bronitsky stated that he would like disclosure to the Board on all contracts, and asked for a monthly report.

Chair Widmer suggested a report similar to a City Manager's update.

Executive Director McCarthy noted that the budget is approved by the Board, and that if it's not budgeted then the contract won't be issued, and he didn't see any contract as out of the ordinary.

Vice Chair Dehn commented that she would like to see a tally of what is paid to each contractor.

Member Foust agreed that a monthly Executive Director's report would be helpful.

- d) Update on Commercial Recycling Registration System for Non-Franchised Haulers

Member Bronitsky asked if the SBWMA could pass an ordinance that would be binding in a jurisdiction.

Counsel Lanzone answered yes, and that this was just to collect information and data.

Vice Chair Dehn asked if it would be like the plastic bag ban in which each City has to go and pass their own.

Counsel Lanzone stated no, that this would be held by the SBWMA.

Saff Feldman added that this would have the purpose of gathering information on what is being diverted by haulers other than Recology.

- e) Update on 2014/15 Franchise Rate Setting Process
- f) Recycling and Outreach Programs Update
- g) Shoreway Operations and Master Plan Update
- h) Receipt of Recology and SBR Monthly Reports

Executive Director McCarthy noted that the contractor's monthly reports are now being emailed directly to the Board, and that this would only be a cover staff report going forward.

7. Board Member Comments
8. Adjourn 4:05PM





## STAFF REPORT

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To: SBWMA Board Members  
From: Marshall Moran, Finance Manager  
Kevin McCarthy, Executive Director  
Date: March 27, 2014 Board of Directors Meeting  
Subject: Resolution Approving Calendar Year 2013 Financial Statements

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### Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2014-04 attached hereto authorizing the following action:

- Approving the South Bayside Waste Management Authority's unaudited Financial Report for Calendar Year 2013 as reviewed by SBWMA's audit firm, Lance Soll & Lunghard.

### Analysis

As part of the 2009 Bond Indenture, the SBWMA is required to present unaudited calendar year Financial Reports to the bond rating agencies by May 1. These reports are limited to information that is required in the indenture and include the results of the bond covenant tests. There are two tests – a break even test and a minimum debt coverage ratio of 1.4.

The financial reports, Table 4 and 5, of the South Bayside Waste Management Authority for calendar year ending December 31, 2013, have been prepared by the City of San Carlos Administrative Services Department with assistance from SBWMA staff and examined by the independent auditing firm of Lance Soll & Lunghard. The firm believes that the financial reports were prepared in conformity with generally accepted accounting principles but are unaudited.

A conference call was made with the Audit Committee to review this financial statement and answer their questions. They have approved the financial report to be submitted to the full Board.

### Overview of the Financial Reports

The Financial Report, Table 4, shows the operating income for calendar year 2013 of \$3,586,600 (Modified Change in Net Assets). Table 5 shows that the bond covenant requirements have been achieved. Due to the early payoff of the Burlingame B bond of \$3,000,000, the total debt service is \$7,197,279 which includes the B bond payoff. Therefore, to achieve the bond covenant tests, a revenue transfer has been made of \$3,000,000 from unrestricted reserves. This revenue transfer is for reporting purposes only; no money actually moves. It is a one-time event and the revenue transfer is reversed back to the Rate Stabilization Fund after the reporting date.

The Burlingame B bond was due in September 2014, but because there was surplus cash, it was decided to pay off this bond one year early in September 2013 and save \$150,000 in interest. The Burlingame B bond is now totally paid off.

The SBWMA is obligated by the bond indenture to set tip fees at Shoreway that produce financial results by generating enough revenue to achieve the covenant tests. These tests are essentially liquidity tests and common

for these types of revenue bonds. As shown on Table 5, the Break Even coverage of 1.06 and the bond Debt Coverage of 1.55 meet the requirements of the bond indenture (minimum of 1.0 and 1.40 respectively). Both results are very low as predicted. Had the B bond early payoff not occurred, the revenue transfer would not have been needed. The Break even coverage would be the same at 1.06 but the Debt Coverage would have been better at 1.94 without the B bond early payoff.

Excluding the payoff of the Burlingame bond, the 2013 results are slightly better than last year:

	Calendar Year	
	2012	2013
Breakeven Test	1.04	1.06
Debt Coverage Test	1.72	1.94
<i>Note: 2013 excludes B bond payoff</i>		

### **Background**

On July 23, 2009 the Board approved a resolution authorizing the issuance of solid waste enterprise revenue bonds Series 2009A (tax-exempt) and Series 2009B (taxable) to the City of Burlingame. In 2013, the Board approved the payoff of the B bond one year early with surplus funds to save interest expense. The bond indenture requires annual financial reporting on a fiscal (audited) and calendar year (unaudited) basis.

Most of our business is conducted on a calendar year basis. Our contract rates with SBR, Recology, and disposal and processing vendors all are adjusted effective January 1. The tip fees at Shoreway are also adjusted on January 1. Therefore, for bond reporting, it made sense to report our financial results on a calendar year basis. However, our fiscal year ends on June 30. We are tied into the City of San Carlos's accounting and computer systems and to change this would be difficult and more expensive. Thus, we maintain two financial years for reporting purposes.

LSL also audits our fiscal year financial statements. The audited financial statements were approved by the board at the November 2013 Board meeting.

### **Fiscal Impact**

There is no fiscal impact associated with this item.

#### **Attachments:**

Resolution 2014-04

Attachment A – 2013 Unaudited Financial Statements



**RESOLUTION NO. 2014-04**  
**RESOLUTION OF THE SOUTH BAYSIDE WASTE  
MANAGEMENT AUTHORITY BOARD OF DIRECTORS  
APPROVING THE CALENDAR YEAR 2013 FINANCIAL STATEMENTS**

**WHEREAS**, the South Bayside Waste Management Authority contracted with the audit firm of Lance Soll & Lunghard to conduct a review of the Agency's financial records in accordance with Governmental Accounting Standards; and

**WHEREAS**, the financial statements for the calendar year ending December 31, 2013 as prepared by said firm have been completed; and

**NOW, THEREFORE BE IT RESOLVED** that the South Bayside Waste Management Authority hereby approves the unaudited Annual Financial Report as prepared by Lance Soll & Lunghard for the calendar year ending December 31, 2013.

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 27<sup>th</sup> day of March, 2014, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist				

I HEREBY CERTIFY that the foregoing Resolution No. 2014-04 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on March 27, 2014.

ATTEST:

\_\_\_\_\_  
Bill Widmer, Chairperson of SBWMA

\_\_\_\_\_  
Cyndi Urman, Board Secretary



**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**UNAUDITED FINANCIAL INFORMATION**  
**DECEMBER 31, 2013**

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
UNAUDITED FINANCIAL INFORMATION  
DECEMBER 31, 2013

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
UNAUDITED FINANCIAL INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2013

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## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To Members of the Board of Directors of the  
South Bayside Waste Management Authority  
San Carlos, California

We have compiled the accompanying Unaudited Statement of Revenues, Expenses and Changes in Net Position and Unaudited Calculation of Debt Service Coverage of the South Bayside Waste Management Authority as of December 31, 2013, and for the year then ended included in the accompanying prescribed form. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the form prescribed by the *\$53,500,000 South Bayside Waste Management Authority Solid Waste Enterprise Bonds (Shoreway Environmental Center) Series 2009A Official Statement*.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the form prescribed by the *\$53,500,000 South Bayside Waste Management Authority Solid Waste Enterprise Bonds (Shoreway Environmental Center) Series 2009A Official Statement* and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements as prescribed by the *\$53,500,000 South Bayside Waste Management Authority Solid Waste Enterprise Bonds (Shoreway Environmental Center) Series 2009A Official Statement* without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The accompanying financial statements were prepared for the purpose of complying with the requirements of the *\$53,500,000 South Bayside Waste Management Authority Solid Waste Enterprise Bonds (Shoreway Environmental Center) Series 2009A Official Statement*, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Board of Directors of South Bayside Waste Management Authority for compliance with the *\$53,500,000 South Bayside Waste Management Authority Solid Waste Enterprise Bonds (Shoreway Environmental Center) Series 2009A Official Statement* and is not intended to be, and should not be, used by anyone other than these specified parties.

*Lance, Soll & Lunghard, LLP*

Brea, California  
March 5, 2014

**TABLE 4**  
**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**UNAUDITED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>OPERATING REVENUES</b>	
Charges for services	\$ 31,736,686
Commodity revenue	9,432,961
Other	<u>720,373</u>
Total Operating Revenues	<u>41,890,020</u>
<b>OPERATING EXPENSES</b>	
Shoreway operations	31,698,840
SBWMA program administration	2,214,173
Franchise Fee-Transfer Station	<u>1,510,418</u>
Total Operating Expenses	<u>35,423,431</u>
Operating Income (Loss)	<u>6,466,589</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Income	167,290
Interest-2009A Bond	(2,953,946)
Interest-2009B Bond	<u>(93,333)</u>
Total Non-Operating Revenues (Expenses)	<u>(2,879,989)</u>
<b>MODIFIED CHANGE IN NET POSITION</b>	3,586,600
<b>RECONCILIATION TO NET POSITION</b>	
Reduction of Bond Liability	(4,150,000)
Principal - 2009A Bond	4,150,000
Premium 2009A Reserve Fund FHLMC	7,500
Depreciation Expense (non-cash)	<u>(3,241,549)</u>
TOTAL RECONCILIATION TO NET POSITION	<u>(3,234,049)</u>
<b>NET CHANGE IN NET POSITION</b>	<u>352,551</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	24,924,464
<b>RESTATEMENT OF NET POSITION</b>	
Depreciation expense	(1,350,848)
GASB 65 Implementation	(522,214)
Interest expense previously capitalized	(2,456,484)
Interest income previously offset against capitalized interest expense	119,768
Principal - 2009A Bond	<u>1,095,000</u>
<b>NET POSITION BEGINNING OF YEAR, AS RESTATED</b>	<u>21,809,686</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 22,162,237</u>

See Independent Accountant's Compilation Report

**TABLE 5**  
**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**UNAUDITED CALCULATION OF DEBT SERVICE COVERAGE**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Operating and Non-Operating Revenues (from Table 4)	\$ 42,057,310
Additional Revenue transfer from the Rate Stabilization Fund for the payment of debt service <sup>(3)</sup>	3,000,000
Total Revenues and Additional Revenues	45,057,310
<u>Expenses</u>	
O&M Cost	33,913,013
Debt Service <sup>(3)</sup>	7,197,279
Subordinate Charges	1,510,418
Total Expenses	42,620,710
Coverage (Total Revenues/Total Expenses) <sup>(1)</sup>	1.06
Operating and Non-Operating Revenues (from Table 4)	42,057,310
<i>plus</i> Rate Stabilization Fund Transfer <sup>(3)</sup>	3,000,000
Total Revenues	45,057,310
<i>less</i> O&M Expenses	33,913,013
<i>equals</i> Net Revenues	11,144,297
Debt Service	7,197,279
Coverage (Net Revenues/Debt Service) <sup>(2)</sup>	1.55
Ending Unrestricted Net Position	\$ 12,520,017

(1) Required to be 1.0 or greater

(2) Required to be 1.4 or greater

(3) On June 27, 2013 the Board of Directors adopted resolution Number 2013-16 authorizing the early redemption of \$3,000,000 of principal of the Solid Waste Enterprise Revenue Bonds Series 2009B (Taxable) in compliance with the Indenture of Trust

Source: The Authority

**See Independent Accountant's Compilation Report**



## STAFF REPORT

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**To:** SBWMA Board Members  
**From:** Marshall Moran, Finance Manager  
**Date:** March 27, 2014 Board of Directors Meeting  
**Subject:** Resolution Approving a Contract with Hilton, Farnkopf and Hobson Consulting, LLC for Financial Systems Audit of Collection Services and Facility Operations Contractor for 2013

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### Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2014-05 attached hereto authorizing the following action:

Authorize the Executive Director to execute a contract with Hilton, Farnkopf and Hobson (HFH) Consulting, LLC for a Financial Systems Audit of Collection Services and Facility Operations Contractors with a not-to-exceed budget of \$47,792.

### Analysis

The SBWMA is seeking to contract with HFH to perform a financial systems audit of our two contractors, Recology and South Bay Recycling (SBR). In 2012, the SBWMA issued a Request for Proposal (RFP) for a Financial Systems Audit of Collection Services and Facility Operations Contractors to nine potential proposers. Based on the results of that RFP process and the work performed by HFH last year, staff is recommending contracting with HFH to perform this work for calendar year 2013 for a cost not to exceed \$47,792.

The scope of work is provided in the HFH proposal attached (**Exhibit A**). To summarize the scope of work, this project will entail a thorough review and verification of Recology San Mateo County's (Recology) Annual Revenue Reconciliation which includes verifying billed revenue, agency fees, and disposal and processing expense by Member Agency. They will also review Attachment Q revenue and costs. The SBR review and verification will include public revenue and commodity revenue reported and paid to the SBWMA for 2013. HFH will also review the scale house procedures which is the originating source of all tonnage and public revenue reporting.

The general rationale for this project is to ensure the accurate reporting of financial data, balances owed to/from each Member Agency and Recology and various contractor payments to the agencies and the SBWMA. Thus, the audit work will verify that both Recology and SBR are accurately obtaining, compiling and reporting financial data to the Member Agencies and the SBWMA per the requirements prescribed in the Franchise Agreement(s) and the Shoreway Facility Operations Agreement, respectively.

It is important to be clear on what is not included in this audit. This audit does not include a review of the actual route assessment data collection process performed by Recology in April/May to gather statistics used in the cost allocation process. Nor will we assess whether all customer accounts are being billed by Recology. Recology annual report states that they review 39,912 customers each year but exactly what they review is not clear from their report and has not been verified. While these areas are important, we are not prepared to perform an audit on these topics yet until the scope can be clearly defined and the sample size can be large enough to be meaningful without being cost prohibitive. A preliminary cost estimate to review the route assessment process and observe only one route out of 120 total routes was over \$8,000. We will continue to consider these topics for

possible inclusion in next year's audit. This audit is also not an assessment of productivity or efficiency. These factors have no impact on the total compensation paid to Recology which is adjusted annually based solely on CPI Indices or other objective factors. Recology's actual cost to perform their service is not a factor in their annual compensation adjustment.

### **Background**

The Member Agencies Collection Services Franchise Agreements with Recology prescribe numerous reporting requirements that ultimately have a direct effect on Member Agency garbage collection rates charged to their customers. It is very important that the total Collection cost of approximately \$98,000,000 is correctly reported and verified by Member Agency. In particular, Recology will submit on March 31, 2014, a Revenue Reconciliation for 2013 that will show the surplus or shortfall in compensation retained by Recology in comparison to what they are owed by Member Agency. It is based on billed revenue, less fees paid by Recology to the Member Agencies and payments to the SBWMA for disposal and processing at Shoreway.

Based on the terms of the Facility Operations Agreement, SBR paid to the SBWMA in 2013 all public gate revenue of approximately \$5,900,000 and all commodity revenue of approximately \$10,600,000. This audit will review in detail the backup to their calculation and payments to ensure that the proper amounts were reported and paid.

The information contained in the contractor's reports and payments are substantially self-reported and needs to be verified. The result of last year's audit adjusted Recology Attachment Q revenue by \$110,016 and found \$14,758 in underpayments from SBR which more than covered the cost of the audit. We believe in the concept of "trust but verify" and believe that our Member Agencies are well served by performing a financial review of our contractors by an outside third party.

### **Fiscal Impact**

The SBWMA FY2014 budget includes \$59,000 for Contract Management Support. The contract with HFH Consulting, LLC for a not-to-exceed amount of \$47,792 will be paid with these funds.

#### **Attachments:**

Resolution 2014-05

Exhibit A – Proposal from HF&H Consulting, LLC



## RESOLUTION NO. 2014-05

### RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE A CONTRACT WITH HFH CONSULTING LLC FOR A FINANCIAL SYSTEMS AUDIT OF COLLECTION SERVICES AND FACILITY OPERATIONS CONTRACTORS FOR CALENDAR YEAR 2013

**WHEREAS**, the South Bayside Waste Management Authority (SBWMA) Board of Directors has considered entering into a contract with Hilton, Farnkopf and Hobson Consulting, LLC, for the purpose of providing a financial systems audit of collection services and facility operations contractors 2013 financial reporting and payments; and

**WHEREAS**, the Hilton, Farnkopf and Hobson Consulting, LLC firm successfully performed a similar audit last year after an RFP selection process and has the appropriate experience in the industry and with our unique contracts; and

**WHEREAS**, attached as **Exhibit A** hereto is the HFH proposal with the scope of work.

**NOW, THEREFORE BE IT RESOLVED** that the South Bayside Waste Management Authority hereby authorizes Executive Director to execute an Agreement with Hilton, Farnkopf and Hobson Consulting, LLC with a not-to-exceed budget of \$47,792.

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 27<sup>th</sup> day of March, 2014, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist				

I HEREBY CERTIFY that the foregoing Resolution No. 2014-05 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on March 27, 2014.

ATTEST:

\_\_\_\_\_  
Bill Widmer, Chairperson of SBWMA

\_\_\_\_\_  
Cyndi Urman, Board Secretary



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Walnut Creek, California 94596  
Telephone: 925/977-6950  
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[www.hfh-consultants.com](http://www.hfh-consultants.com)

Robert D. Hilton, CMC  
John W. Farnkopf, PE  
Laith B. Ezzet, CMC  
Richard J. Simonson, CMC  
Marva M. Sheehan, CPA

*Sent via email*

March 17, 2014

Mr. Marshall Moran  
Finance Manager  
RethinkWaste  
610 Elm Street, Suite 202  
San Carlos, CA 94070

**Subject: Proposal – Financial Systems Audit of Collection Services and Facility Operations  
Contractors 2013-2014**

Dear Mr. Moran:

HF&H Consultants, LLC (HF&H) is pleased to present this proposal to the South Bayside Waste Management Authority (SBWMA or RethinkWaste) to conduct the financial systems audit of RethinkWaste's collection services and facility operations contractors.

This letter briefly describes the background leading to this proposal, the proposed scope of work, our fee estimate, and staffing. As with any audit, it is important to always be looking for areas with potential weaknesses. We have added Marva Sheehan to our proposed staff. She is a Certified Public Accountant with auditing experience and industry controller experience to give us a "fresh set of eyes" as we perform our scope of work.

## **BACKGROUND**

RethinkWaste developed a model franchise agreement that each of its member agencies used to develop their own franchise agreement with Recology San Mateo County (Recology) for recyclable materials, organic materials, and solid waste collection services. In addition, RethinkWaste executed an operating agreement with South Bay Recycling (SBR) to operate the RethinkWaste-owned Shoreway Environmental Center (SEC) in the City of San Carlos.

The two contracts have various financial aspects that need to be verified and audited. Annually, Recology reports, by Member Agency, the net revenue billed compared to the amount owed to Recology for service (based on the Board-approved compensation). In addition, SBR reports (and transmits) all commodity revenue and all public gate revenue to RethinkWaste. RethinkWaste pays SBR monthly for operating the SEC based on their tonnage reports.

In 2012 and 2013, HF&H conducted reviews of the reports submitted by the Contractors for calendar years 2011 and 2012, respectively. RethinkWaste has recently issued a Request for Proposals for a similar review of the reports submitted by the Contractors for calendar year 2013.

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## PRELIMINARY AND ADMINISTRATIVE TASKS

### Kick-off Meetings and Project Status Meetings

*Purpose: To facilitate an efficient and effective review that focuses on specific goals and objectives described in RethinkWaste's Request for Proposal (RFP). In addition, kick-off meetings and project status meeting help staff identify concerns/goals that may not have been expressed in the RFP or have not been raised by Member Agencies since the release of the RFP.*

#### Kick-off Meeting with RethinkWaste and/or Recology and SBR Staff

Our HF&H project team will meet with RethinkWaste staff to: (1) discuss the goals and objectives of the financial systems audit and revise the scope of work, if necessary; (2) reach agreement on the roles and responsibilities of HF&H, RethinkWaste, and Recology/SBR staff; (3) discuss the structure and components to be included in the final project report; and, (4) reach agreement on a project timeline.

#### Follow-up Meetings/Conference Calls as Needed

The HF&H team will provide periodic project status updates via meetings, email and/or conference calls with RethinkWaste staff at least bi-weekly. These status updates will allow RethinkWaste staff to remain up to date on our team's progress on the project. Additionally, meetings may facilitate our understanding of potential roadblocks by providing a course for RethinkWaste to lend guidance or direction on a revised work plan to accomplish necessary tasks.

## SCOPE OF WORK

### Task A: Collection Services Contractor - Recology San Mateo County

#### 1. Annual Revenue Reconciliation for 2013

*Purpose: To verify that Recology has accurately calculated each Member Agency's 2013 revenue surplus/shortfall for the franchised services provided by Recology during calendar year 2013. In accordance with each Member Agency's Franchise Agreement, the 2013 surplus/shortfall will be added, to or subtracted from, Recology's 2015 compensation.*

HF&H will meet with the appropriate Recology staff to discuss the source documents used to populate each section of the Revenue Reconciliation report (i.e., Gross Revenues Billed, Payments to RethinkWaste, Payments to Agencies for Agency Fees, and Revenues Attributable to Unscheduled Services).

We will also verify that any customer accounts that were indentified in previous reviews as being miscoded to the wrong agency have been properly re-coded and that the revenues of the affected Member Agencies have been correctly adjusted.

We will request explanations for any discrepancies until the ultimate source documents have been accurately determined.

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### **a. Verify Billed Revenue ties to Accounting Records**

HF&H will confirm that the amount of residential and commercial revenue reported as billed by Member Agency for calendar year 2013 ties to the accounting records, including unbilled and deferred revenue adjustments.

HF&H will “project” the 2013 revenue by Member Agency by multiplying the 2012 revenue by Member Agency by applicable 2013 rate adjustment and compare the “projected revenue” to the 2013 billed revenue reported by Recology for reasonableness. We will investigate any significant differences. We will request a list of rate adjustments and effective dates for each Member Agency from Recology to use in our “projections”. HF&H will confirm the rate adjustments for San Mateo, West Bay and the County based on data on file.

### **b. Verify Allocation to Member Agencies**

HF&H will verify that the annual amounts for Collection Expenses, Agency Fees, and Disposal expense and tonnage data reported in the Revenue Reconciliation and the calculations used to derive these amounts tie to the accounting records and are properly allocated to each Member Agency. In last years’ verification process of Disposal expense and tonnage data HF&H noted a variance in the amount Recology charged the member agencies in the revenue reconciliation for disposal and the amount billed to Recology by RethinkWaste during the year of \$86,134. Further review found an inaccurate tonnage classification had resulted in RethinkWaste under billing Recology. As a result Recology agreed to pay the \$86,134 difference and no adjustment was needed to the Revenue Reconciliation.

#### **Collection Expense**

HF&H will verify that Recology’s 2013 Revenue Reconciliation properly allocated their approved 2013 Contractor’s Compensation to each Member Agency based on the SBWMA final Rate Report (9/26/2013) and investigate any differences.

#### **Agency Fees**

HF&H will obtain Recology’s Agency Fee calculation worksheets for each month of 2013 and verify the mathematical accuracy of their calculations. We will request documentation of the current fees by Member Agency from Recology and verify the fees with each Member Agency.

HF&H will reconcile gross revenue billed amounts from monthly Agency Fee payment worksheets to Recology’s supporting documentation (i.e., general ledger, billing reports, etc.) and research any discrepancies. We will also check that the billed amounts also tie to the revenue included in Recology’s annual Revenue Reconciliation report which shall be reviewed in Task A.1 above.

HF&H will reconcile the total fees due each Member Agency with the actual payments received by each Member Agency, and resolve any discrepancies. Discrepancies identified during the conduct of this task will result in a Member Agency being owed underpaid Agency Fees from Recology or owing overpaid Agency Fees back to Recology. Any discrepancies identified will be added to or subtracted from the Revenue Reconciliation surplus / shortfall balance by Agency after discussion with Recology.

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### Disposal Expense and Tonnage Data

HF&H will verify that Recology's payments to RethinkWaste included in their Revenue Reconciliation report agrees to RethinkWaste's records.

We will contact RethinkWaste to verify the applicable per-ton rates charged to the agencies for 2013 for collection of solid waste and organic materials.

We will obtain Recology's annual processing/disposal expense calculation worksheets of 2013 and verify the mathematical accuracy of their calculations, based on the total annual tonnages reported and included in Recology's annual report to RethinkWaste. This task will rely on the total tons and the proper allocation of those tons to each Member Agency, as provided by RethinkWaste from a separate audit engagement.

### Review of Retained Revenue

HF&H will reconcile the net revenue retained by Recology to the accounting records. For each Member Agency, we will verify that the amounts of each section (billed revenue, agency fees, disposal/processing expense, "extra" services, and other adjustments) tie to Recology's general ledger and billing records. By verifying that each section of the Revenue Reconciliation report ties to Recology's accounting records, we will also be verifying that the net revenue retained by Recology ties to the accounting records in total and by Member Agency.

### **c. Compare Revenue Reconciliation to Annual Report**

HF&H will compare gross revenue, tonnage, agency fees and Other Attachment Q revenue in the 2013 Revenue Reconciliation to the Recology 2013 Annual Report and investigate and explain any significant variances.

### **d. Review Adjustments**

HF&H will review and validate all adjustments in the Revenue Reconciliation and explain them if Recology's explanation needs further clarification and give an opinion as to whether HF&H agrees with them or not. Alternate adjustments may be recommended.

### **e. Review Billed Rates**

HF&H will review and perform tests to verify that the rates billed to residential and commercial customers tie to approved rate schedules from each agency. We will randomly select residential and commercial accounts from each Member Agency to verify that the approved rates (in accordance with the Council/Board actions at each Member Agency) were correctly charged. We will test the billed rates for each selected customer one month prior to and one month after the approved effective date to verify the rate changes were made in the correct month. If we find the rate change was not made in the proper month, we will follow up with Recology to see if the rate change was made in a later month. If the rate change was made in a later month, we will verify that the rate change was made retroactive to the appropriate month.

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#### **f. Review Net Surplus/Shortfall**

HF&H will confirm that the net surplus or shortfall owed to/from Recology by Member Agency is accurate. It should be noted that the annual Revenue Reconciliation is based on gross revenues billed; therefore, we will verify that the surplus/shortfall calculations properly reflect gross revenues billed before any adjustments for uncollectable accounts/bad debt, unbilled revenues, or deferred revenue adjustments.

#### **2. Revenue Billed to Customers for Attachment Q – Unscheduled Services**

*Purpose: In accordance with the annual Revenue Reconciliation process described in Section 11.03 of the Franchise Agreements, Recology retains 100% of the revenue collected for the provision of unscheduled or intermittent services identified in Attachment Q since "the amount of such services may vary from year to year and is unpredictable, the costs and revenues associated with them are not included in RethinkWaste's prospective calculation of Contractor's Compensation". Therefore, this task shall verify whether Recology has charged the appropriate rates in accordance with Attachment Q, that the total Attachment Q revenue excluded from the Revenue Reconciliation is accurate, and that the Attachment Q revenue that has been excluded does not mistakenly include revenue for base services.*

After successfully working with Recology to verify the that Attachment Q revenue, by Member Agency, included in their respective Revenue Reconciliation report, ties to their general ledger in Task A.1 above, we will then verify the accuracy of the individual transactions that make up the monthly revenue amounts for each Member Agency.

Specifically, we will:

- a. Confirm that the amount of Attachment Q revenue reported as billed by Member Agency ties to the accounting records for each different type of charge.
- b. Confirm the methodology used to calculate all Attachment Q rates and revenue sources. For example, how bin lock charges are calculated.
- c. Confirm that the rates billed to customers for all Attachment Q services tie to the approved rates by each Member Agency.
- d. Confirm that the total costs charged by Recology to each Member Agency (i.e., Recology's allowable compensation) for Attachment Q services are correct. Recology's allowable compensation may be different than the rate charged to customers and the difference is not to be kept by Recology.
- e. Explain how the additional cart fee charged by some agencies (Atherton, Hillsborough, and County) is reported in the revenue and excluded from cost (these surcharges have no corresponding cost).
- f. Verify that the credit for the first 20% of residential backyard service customers is correct.
- g. Report any issues or concerns on how Attachment Q services are calculated and reported by Recology for both the revenue calculation and the cost calculation. HF&H will additionally explain how each is separately reported.

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## **Task B: Facility Operations Contractor - South Bay Recycling (SBR)**

*Purpose: To verify that SBR has accurately accounted for, and remitted to RethinkWaste, all gate fee revenue collected from persons delivering self-haul materials to the transfer station during 2013. In addition, HF&H will also verify that SBR has accurately accounted for, and remitted to RethinkWaste, all recyclable material commodity revenue (including CRV monies received from the State of California).*

### **1. Review Self-Haul Revenue**

HF&H will confirm that the 2013 public revenue transferred monthly to RethinkWaste ties to the accounting records.

We will request (from RethinkWaste staff) documentation of all self-haul revenue reported and remitted by SBR to RethinkWaste during 2013. We will trace and agree the amounts remitted to RethinkWaste to SBR's supporting documentation (i.e., general ledger, daily cash receipts report, etc.) and resolve any discrepancies.

SBR charges self-haul customers on a per yard basis. Therefore, SBR gate staff is tasked with estimating the volume of material being delivered to the Transfer Station and charging accordingly. SBR's monthly payments for operating the SEC are based on the weight of material leaving the facility. Therefore, this task will include reviewing SBR's effective yards-to-tons ratio experienced during 2013 and comparing the results to industry standards.

### **2. Review Commodity Revenue**

HF&H will verify that the gross 2013 commodity revenue as reported on their monthly report ties to the accounting records. We will request (from RethinkWaste staff) documentation of all gross commodity revenue reported and the portion remitted by SBR to RethinkWaste during 2013. We will trace and agree the amounts remitted to RethinkWaste to SBR's supporting documentation (i.e., general ledger, daily cash receipts report, third-party invoices, etc.), and resolve any discrepancies. Our steps will include the review of the gross tons by commodity type sold during the year and the respective revenue received from third-parties, including any CRV, if applicable. We select a sample of transactions and agree the material type, tons and price per ton to supporting third-party documentation.

HF&H will not verify the allocated amount attributed to RethinkWaste as HF&H understands that this is done by RethinkWaste.

### **3. Review Commodity Prices**

HF&H will verify that the commodity prices (i.e., scrap value) used to calculate the commodity revenue reported to RethinkWaste tie to the prices actually received by SBR (or the required minimum "yellow sheet" pricing).

### **4. Review CRV Calculations**

HF&H will confirm that the calculations used by SBR to calculate and pay the CRV value are accurate and that these funds tie to the per ton rates paid to RethinkWaste. We will verify that SBR is correctly using the actual state paid CRV rates in their CRV rates paid to RethinkWaste.

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HF&H will request (from RethinkWaste staff) documentation of all CRV revenue reported and remitted by SBR to RethinkWaste during 2013. We will trace and agree the amounts remitted to RethinkWaste to SBR's supporting documentation (i.e., monthly reports to the State of California, general ledger, daily cash receipts report, etc.), and resolve any discrepancies.

## **5. Review CRV Outstanding Balance**

HF&H will verify that the CRV outstanding balance is accurately reported (CRV is estimated and accrued monthly and paid in arrears to RethinkWaste after SBR receives payment from the state). We will verify that the CRV outstanding balance, due to RethinkWaste as of December 31, 2013, is accurately reflected in SBR's 2013 annual report.

## **6. Review Buyback Center Payments**

HF&H will verify that payments by SBR to SEC Buyback Center customers, and subsequently reimbursed by RethinkWaste, tie to accounting records.

We will request (from RethinkWaste staff) documentation of all payments made to SEC Buyback Center customers (by SBR) and reimbursed by RethinkWaste during 2013. We will trace and agree the amounts paid to the Buyback customers to the supporting documentation (i.e., general ledger, weight tickets, daily cash payment reports, etc.), and resolve any discrepancies. Our process will include reviewing individual transactions within the general ledger account utilized to summarize the payout transactions in order to verify that the account only includes Buyback payouts and not other accounts payable activities (i.e., miscoded invoices for baling wire, temporary labor, etc.).

## **7. Review of Scale House Procedures**

- a. HF&H will request a narrative of SBR's policies and procedures for the operation of the scale house. After our initial review of the procedures, we will meet with SBR management to discuss and understand the procedures in place for receiving, coding, and reporting the materials delivered to the Shoreway Environmental Center (SEC).

We will review SBR's training program for scale house personnel, verifying employees are properly trained on the policies and procedures. Due to tare weights in the software system having a direct impact on volumes and fees collected, we will specifically review the procedures to ensure proper controls are in place and not being "overridden". We will request explanations from any deviations and /or quantify the impact on the reporting.

Specifically, we will review SBR's procedures and controls on ticket processing. We will include areas of control, such as: proper access to PC Scales, sequentially issued tickets, use of security cameras, voided and/or duplicate ticket controls.

Through observation, we will verify the procedures represented are in fact being followed. We will note any deviation and request explanation and/or quantify impact on reporting.

We will monitor the scale house activities to verify the scale house is being operated in accordance with the franchise agreement, as it relates to the data reported in SBR's monthly, quarterly, and annual reports.

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- b. HF&H will select sampling of weight tickets for the verification of the procedures represented during our conduct of Subtask 7a. Our sample size will provide enough evidence to verify the stated procedures are being followed. Such testing shall include: verifying the collection route stated on the weight ticket ties to the information from Recology's daily dispatch log; verifying the type of material listed on the weight ticket ties to the information from Recology's daily dispatch log which will state the assigned route and material type (i.e., is the assigned vehicle collecting solid waste, recyclable materials, or organic materials).
- c. HF&H will select one month and compare deposits from PC Scale reports to: 1) amount remitted to RethinkWaste; and 2) amount recorded in SBR's general ledger. We will investigate significant variances.
- d. HF&H will propose recommended changes to policies and procedures based on the results of our review and testing of weight tickets.

### **Task C: Communicate Results**

*Purpose: Summarize the work performed and resulting findings and recommendations. The process outlined below allows for input from RethinkWaste and Contractors to ensure that all goals and objectives have been met, all matters have been satisfactorily reviewed, and consensus has been achieved among all parties affected.*

#### **1. Preliminary Draft of Findings and Recommendations**

We will prepare and review our work papers documenting the results of our analysis and our preliminary findings based on the results of our review described above. We will prepare a summary of recommended adjustments. The preliminary findings and recommendations shall include any recommendations for revised reporting and tracking documents, and additional written procedures for administering and enforcing the contract.

#### **2. Meet and Confer with RethinkWaste and Contractors**

We will meet with RethinkWaste, Recology, and SBR management to review our preliminary findings to receive their comments and any additional information. Based on comments and/or additional information provided at the meeting(s), we will perform additional analyses and adjust our preliminary findings (if warranted). This will ensure that all matters have been satisfactorily reviewed and consensus has been achieved with Recology, SBR and RethinkWaste staff.

#### **3. Draft Report**

We will prepare and distribute a draft report documenting our findings and recommendations from the conduct of the tasks described above for review by RethinkWaste, Recology, and SBR management. Our report shall include a matrix which summarizes the pertinent sections of the franchise agreements regarding record keeping, data management, and reporting; how the contractor(s) performed in regard to such sections (providing qualitative and quantitative support); and, any recommendations for revised procedures. In addition, our draft report shall include a narrative of findings and recommendations regarding the reasonableness and accuracy of the Member Agency tonnage allocations by SBR and Recology.

Mr. Marshall Moran  
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#### **4. Final Report**

Based on comments by RethinkWaste, Recology, and SBR management, and any changes resulting from the follow-up discussions, we will amend the draft report and issue the final report.

#### **5. Attend Board Meeting**

With the assistance of RethinkWaste staff, we will attend a Board meeting to present our findings and recommendations and respond to Board member questions regarding our report and presentation.

#### **Task D: Engagement Management**

*Purpose: Manage the project to ensure the work is performed in a professional and timely manner; properly planned and efficiently executed, with the appropriate level of management supervision and review. We will provide timely feedback to RethinkWaste throughout the engagement.*

We will prepare and amend detailed work plans for each task described above, monitor engagement progress, and provide sufficient resources to ensure timely completion of the engagement, review analytical results and interim findings, and respond to questions regarding the progress of the engagement and other issues.

HF&H also maintains a project management system which is capable of tracking project progress and schedule in real-time and can provide periodic updates to RethinkWaste from this system upon request.

### **STAFFING**

#### **Robert Hilton, CMC, President – Engagement Director**

As Engagement Director, Mr. Hilton will provide the leadership, guidance, and perspective needed to ensure that the review of the Contractors' reports is performed with RethinkWaste's objectives in mind. In this regard, he will:

- Attend all key meetings with RethinkWaste and Contractor staff;
- Review the detailed task plans and work products to ensure that they address the engagement objectives;
- Monitor performance against the work plan and schedule through the timely and frequent review of interim and final work papers and reports; and,
- Review the findings and report.

#### **Marva Sheehan, CPA, Vice President– Engagement Manager**

As Engagement Manager, Ms. Sheehan will prepare and supervise the performance of our proposed scope of work, manage the project schedule, and draft the findings and recommendations, and other work products, for Mr. Hilton's review. She will supervise and review the work performed by staff assigned to the project to ensure that it is performed in accordance with the proposed scope of work, our detailed work plans, and meets RethinkWaste's objectives. Along with Mr. Hilton, Ms. Sheehan will:

- Attend all key meetings with RethinkWaste and Contractor staff; and,
- Present our findings and recommendations to RethinkWaste

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Ms. Sheehan has over 30 years of financial and accounting experience, with over 20 years in the solid waste industry, including 13 years as regional/district controller for Browning Ferris Industries/Allied Waste Industries. In her controller role, she developed the allocation methodology for one of the divisions responsible for reporting to over 20 different jurisdictions and assisted in the preparation of Allied Waste's rate applications to RethinkWaste under the previous agreement.

### **Rick Simonson, CMC, Vice President - Engagement Advisor**

As Engagement Advisor, Mr. Simonson will provide background support as situations arise. He has years of experience with RethinkWaste and will be a valuable resource. He will be providing his time at no charge to RethinkWaste. We have included hours in our scope of work; however, we have not included an hourly rate.

### **Colleen Costine, Senior Associate - Lead Engagement Analyst**

As she was for the reviews in 2012 and 2013, Ms. Colleen Costine will serve as the Lead Engagement Analyst. Ms. Costine will prepare and supervise the performance of our proposed scope of work, manage the project schedule, and draft the findings and recommendations, and other work products, for Ms. Sheehan's review. Along with Ms. Sheehan, Ms. Costine will supervise and review the work performed by staff assigned to the project to ensure that it is performed in accordance with the proposed scope of work, our detailed work plans, and meets RethinkWaste's objectives. Ms. Costine has 30 years of financial and accounting experience, with nearly 20 years in the solid waste industry, including eight years as assistant regional/district controller for Allied Waste Industries.

### **Additional Staff**

Ms. Sheehan and Ms. Costine will be assisted by other well-qualified staff in the gathering and analyses of data under their direct supervision. Mr. Dave Hilton, who performed various tasks on the previous engagement, will provide additional continuity on the engagement.

## **SCHEDULE**

We will schedule a kick-off meeting with RethinkWaste staff upon receipt of a signed contract. The review and final report will be completed by May 15, 2014 (or approximately 45 days from the receipt of the contract). At the kick-off meeting we will work with RethinkWaste staff to develop a more detailed schedule that will consist of periodic dates for status meetings and delivery dates for the draft and final report.

## **FEE ESTIMATE**

Our fees, shown in detail in Attachment A, are based on an estimated 312 hours, including 18 hours for Rick Simonson at no charge, to perform the tasks described above by HF&H staff assigned at their standard hourly billing rates. We propose to perform this engagement for a not-to-exceed fee of \$47,792.

If fewer hours than budgeted are required, we will bill you the lesser amount.



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\* \* \* \*

We sincerely appreciate the opportunity to be of continued service to RethinkWaste. We value our relationship, and we will continue to strive to provide the best value to the members and their ratepayers.

Very truly yours,

HF&H Consultants, LLC

A handwritten signature in blue ink that reads 'Marva W Sheehan'.

Marva Sheehan, CPA  
Vice President

Attachment: Fee Estimate

## ATTACHMENT A: FEE ESTIMATE

		R. Hilton	R. Simonson	M. Sheehan	C. Costine	D. Hilton	K. Erwin	Total	Proposed
		\$255	\$0	\$235	\$185	\$100	\$98	Hours	Cost
<b>Kick-off Meetings and Project Status Meetings</b>									
	Project Kick-off Meeting	2	2	2	0	0	0	6	\$980
	Status Meetings/ Conference Calls as Needed	0	2	3	2	2	0	9	\$1,275
	<b>Preliminary Task Subtotal</b>	<b>2</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>15</b>	<b>\$2,255</b>
<b>Task A Collection Services Contractor – Recology San Mateo County</b>									
1	Annual Revenue Reconciliation for 2013	0	4	8	32	28	0	72	\$10,600
2	Review of Attachment Q Revenue	0	1	1	6	16	0	24	\$2,945
	<b>Task A Subtotal</b>	<b>0</b>	<b>5</b>	<b>9</b>	<b>38</b>	<b>44</b>	<b>0</b>	<b>96</b>	<b>\$13,545</b>
<b>Task B Facility Operations Contractor – South Bay Recycling (SBR)</b>									
1	Review Self-Haul Revenue	0	1	1	4	6	0	12	\$1,575
2	Review Commodity Revenue	0	1	1	3	6	0	11	\$1,390
3	Review Commodity Prices	0	1	1	4	6	0	12	\$1,575
4	Review CRV Calculations	0	1	1	3	6	0	11	\$1,390
5	Review CRV Outstanding Balance	0	1	1	4	6	0	12	\$1,575
6	Review Buyback Center Payments	0	1	1	5	6	0	13	\$1,760
7	Review of Scale House Procedures	0	1	6	18	20	0	45	\$6,740
	<b>Task B Subtotal</b>	<b>0</b>	<b>7</b>	<b>12</b>	<b>41</b>	<b>56</b>	<b>0</b>	<b>116</b>	<b>\$16,005</b>
<b>Task C Communicate Results</b>									
1	Preliminary Draft of Findings and Recommendations	0	1	4	6	3	0	14	\$2,350
2	Meet and Confer with RethinkWaste and Contractors	0	0	4	6	0	0	10	\$2,050
3	Draft Report	1	1	6	12	4	5	29	\$4,775
4	Final Report	0	0	2	4	0	2	8	\$1,406
5	Prepare for and Attend Board Meeting	2	0	4	2	0	2	10	\$2,016
	<b>Task C Subtotal</b>	<b>3</b>	<b>2</b>	<b>20</b>	<b>30</b>	<b>7</b>	<b>9</b>	<b>71</b>	<b>\$12,597</b>
<b>Task D Engagement Management</b>									
	<b>Task D Subtotal</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>\$2,890</b>
<b>Total Costs</b>									
	Labor	5	18	52	119	109	9	312	\$47,292
	Out-of-Pocket Expenses								\$500
	<b>Total Budget</b>								<b>\$47,792</b>