

Section 5

Review of
Recology
Liquidated
Damages and
Performance
Incentive /
Disincentive
Payments

Annual Reports, and were also consistent with the “Contamination Sampling Results” for 2016 provided by Sloan-Vazquez for the first and fourth quarters. We noted that for purposes of the Incentive/Disincentive calculations, Recology did not calculate Disincentive amounts for the second and third quarter of 2016.¹⁰ Recology reported that, as agreed to with the SBWMA, the quarterly Disincentive payment will only apply to the quarter in which the sample is taken, therefore, no Disincentive payment would apply for the second or third quarter.

Recology maintained contamination levels below the maximums listed above for each quarter of 2016, with the exception of exceeding the Maximum Contamination Level for Commercial Targeted Recyclable Materials for the first and second quarter of 2016, and exceeding the Maximum Contamination Level for Single-Family Targeted Recyclable Materials for the third and fourth quarter of 2016.

Recommended Adjustment – None.

Minimum Diversion Levels

R3 found that the diversion amounts used for the “Minimum Diversion Levels” Incentive/Disincentive calculations were consistent with the figures presented in the Quarterly and Annual Reports. Specifically, Recology calculated an overall 2016 diversion rate of 47.57%, as compared to the target diversion rate of 46.87% (i.e., the overall 2014 diversion rate). Because the overall diversion target was exceeded, this means that an Incentive payment is due to Recology from the Member Agencies, and that the new overall target diversion rate will be 47.57% going forward. In addition, R3 confirmed that Recology correctly calculated Disincentive amounts due to the Member Agencies for single-family and commercial sector minimum diversion levels. Specifically:

- Recology achieved a single-family sector diversion rate of 63.51%, as compared to the target diversion level of 62.64%, resulting in no Disincentive payment; and
- Recology achieved a commercial sector diversion rate of 32.14%, as compared to the target diversion level of 24.75%, resulting in no Disincentive payment.

Recommended Adjustment – None

¹⁰ Contamination results are measured on a bi-annual basis (twice per year), with the year’s first-half sampling results applied to the first and second quarter’s diversion calculations, and the year’s second-half sampling results applied to the third and fourth quarter’s diversion calculations. This is illustrated by Recology’s application of the contamination sampling results on the “M1d. Diversion Level Calculation” section of their 2016 Annual Report. As such, the contamination sampling results should also be applied to the Disincentive calculations in the same manner (i.e., the year’s first-half sampling results apply to the first and second quarter’s Disincentive calculation, and the year’s second-half sampling results apply to the third and fourth quarter’s tonnage data).



Liquidated Damages and Performance Incentives/Disincentives Tracking and Reporting Procedures

Liquidated Damages Procedures

In general, Recology tracks and reports “occurrences” related to the franchise agreement’s specified Liquidated Damage items, and Liquidated Damage payments are assessed on any occurrences in excess of the occurrence limits specified by the franchise agreement. Many of the Liquidated Damage items are related to customer complaints, with additional Liquidated Damages related to late submittal of reports, and proper processing and delivery of collected material types.

Collection Quality

Complaints are received by phone through Recology’s call center, and may also be submitted by customers online via Recology’s website. When a complaint is received through the call center, the responding customer service representative (CSR) creates a complaint ticket with a “Reason Code” that describes the nature of the complaint. Each ticket is maintained in Recology’s internal software and is shown as a line-item entry on Recology’s internal monthly TQR4 Report.

It is important that each incoming complaint be assigned the correct Reason Code, because Recology determines monthly Liquidated Damage occurrence amounts, as well as other information, using the quantity of Reason Codes shown on the TQR4 Report for each complaint type. In other words, if a complaint is entered into the system with an incorrect Reason Code, the associated Liquidated Damage quantity for that month will not account for the complaint.

All complaints submitted via Recology website produce a ticket with a generic “Complaint” Reason Code that is not specific to the type of complaint received. Recology reported that each generic complaint submitted through the website, if handled properly, should be accompanied by a follow-up complaint ticket with a more specific Reason Code corresponding to the associated Liquidated Damage item. During our review of CS call coding, R3 observed several website “Complaint” tickets and confirmed that follow-up complaint tickets with more specific Reason Codes were created for complaints submitted via the website.

Customer Service Quality

Recology tracks occurrences of the one Liquidated Damage item related to Customer Service Quality (“Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry”) using a specific Reason Code in the same manner as those items in the “Collection Quality” category above. Recology determines monthly Liquidated Damage occurrence amounts for this item using the quantity of Reason Codes shown on the TQR4 Report for this item.

Reporting

For the “Reporting” category of Liquidated Damages, report submittal dates are recorded by the email transmittal, but no Liquidated Damages for lateness are assessed unless they are notified of the late submittal by RethinkWaste.

Section 5

Review of Recology Liquidated Damages and Performance Incentive / Disincentive Payments

Section 5

Review of
Recology
Liquidated
Damages and
Performance
Incentive /
Disincentive
Payments

Other

For the “Other” subcategory of Liquidated Damages, Recology stated that all collected materials are delivered to the SBR facility on Shoreway Road (i.e., “the designated transfer and processing facility”).

Performance Incentives/Disincentives ProceduresSingle-Family Missed Pick-Up Initial Complaints

The Incentive/Disincentive for “Single-Family Missed Pick-Up Initial Complaints” was eliminated and is no longer included in Recology’s reports.¹¹

Single-Family Missed Pick-Up Collection Events

Recology calculates the total number of “Single-Family Missed Pick-Up Collection Events” for each month by determining which instances of “Single-Family Missed Pick-Up Complaints” (i.e., TQR4 Report Reason Code 32014) are not resolved by the end of the next business day. Single-Family Missed Pick-Up Complaints are received at the call center in the same manner as described in the “Collection Quality” subsection above.

Average Speed of Answer at Customer Service Center & Ninety (90) Second Maximum Hold Time

The calculated Incentive/Disincentive amounts for “Average Speed of Answer at Customer Service Center” and “Ninety (90) Second Maximum Hold Time” are based on phone statistics generated by Recology’s Shoretel phone system. As discussed previously, statistics generated by the system include:

- Number of calls received;
- Number of calls answered;
- Number of calls answered within 15, 30, 45, 60, and 90 seconds; and
- Cumulative wait time before answered. (The average wait/hold time (i.e., average speed of answer) is calculated based on the cumulative wait time and the total number of calls answered.)

The Shoretel phone statistics from each month are input into the applicable Incentive/Disincentive forms that are provided in reports to RethinkWaste.

Maximum Contamination Levels

Recology’s contamination levels are based on third party “Contamination Sampling Results” provided by Sloan-Vazquez, under contract to RethinkWaste. These contamination levels are determined twice per year, and the resulting contamination percentages are input into the applicable quarterly Incentive/Disincentive forms in the Quarterly Reports that are provided to RethinkWaste.

Minimum Diversion Levels

For purposes of calculating the Performance Incentive/ Disincentive, annual diversion levels are set equal to the overall annual diversion levels after accounting for contamination, as

¹¹ As amended per the administrative changes and amendments.

provided on sheet M1d of Recology's Annual Report source documentation provided to RethinkWaste and available to the Member Agencies upon request.

Section 5

Review of
Recology
Liquidated
Damages and
Performance
Incentive /
Disincentive
Payments

R3

Section 6

Review of
SBR Reported
In-Bound
Tonnage Data

Section 6. Review of SBR Reported In-Bound Tonnage Data

The objectives of this task were to:

- Verify Accuracy of SBR's reported In-Bound Tonnage Data;
- Verify SBR's reported data (from franchised services) is consistent with Recology's reports; and
- Verify all other SBR tonnage is also accurate.

Background

All incoming franchised vehicles (Recology) and Member Agency Vehicles, as well as self-haul C&D/Inert loads are weighed on SBR's scales when those loads enter the facility. All other self-haul loads are not weighed and are charged based on estimated volume and material type.

Comparison of Recology Tons to SBR Tons

Recology drivers enter information about each load into SBR's PC Scales system through the driver automated attendant (DAT) terminal located at the scales. Each driver receives a hard copy of each ticket. SBR reviews Recology's weight tickets on a daily basis for discrepancies such as duplicate loads and zero-weight loads and any inaccuracies to identify any potential errors and electronically uploads all data to Recology on a daily basis. At the end of each month SBR submits a monthly aggregate data upload to Recology.

To determine if SBR's reported data for Recology's franchised service is consistent with that data reported by Recology, R3 compared SBR's monthly data from franchise services, as reported in their 2016 December Report (Attachment 3 – Franchised Inbound Tons (Recology)) to the monthly data reported by Recology in its monthly tonnage reports as reported in its Tonnage Summary and Cumulative Comparison worksheets of its Quarterly Reports.

Findings:

Table 6 below provides a comparison of the total tons diverted and disposed as reported by Recology to those reported by SBR. As, shown there are some minor discrepancies in both the reported diversion and disposal data. Relative discrepancies from our 2013, 2014, and 2015 Annual Report Reviews are also shown.



**Table 6
Comparison of Recology and SBR Monthly Tonnages**

Month	Tons Disposed				Tons Diverted			
	Recology Report (1)	SBR Report (2)	Variance (Recology vs. SBR)		Recology Report (1)	SBR Report (2)	Variance (Recology vs. SBR)	
			Tons	%			Tons	%
January	14,655.11	14,662.62	(7.51)	-0.05%	14,775.55	14,770.60	4.95	0.03%
February	14,554.51	14,554.51	0.00	0.00%	14,092.44	14,094.97	(2.53)	-0.02%
March	16,208.17	16,208.06	0.11	0.00%	16,785.00	16,788.77	(3.77)	-0.02%
April	14,406.64	14,406.51	0.13	0.00%	14,892.29	14,895.98	(3.69)	-0.02%
May	15,003.34	15,003.11	0.23	0.00%	15,279.63	15,281.53	(1.90)	-0.01%
June	15,278.96	15,278.93	0.03	0.00%	14,856.66	14,859.57	(2.91)	-0.02%
July	14,593.08	14,591.34	1.74	0.01%	13,643.87	13,646.23	(2.36)	-0.02%
August	15,924.76	15,924.72	0.04	0.00%	15,207.02	15,210.75	(3.73)	-0.02%
September	14,866.70	14,865.37	1.33	0.01%	14,458.06	14,461.10	(3.04)	-0.02%
October	14,748.09	14,747.75	0.34	0.00%	14,958.03	14,959.06	(1.03)	-0.01%
November	15,134.82	15,134.82	0.00	0.00%	15,994.78	15,998.90	(4.12)	-0.03%
December	15,480.16	15,480.09	0.07	0.00%	16,056.07	16,059.44	(3.37)	-0.02%
2016 Total	180,854.34	180,857.83	(3.49)	0.00%	180,999.40	181,026.90	(27.50)	-0.02%

Prior Years Data

2015 Total	177,591.01	177,585.62	5.39	0.00%	171,735.83	171,761.96	(26.13)	-0.02%
2014 Total	177,106.09	177,098.36	7.73	0.00%	169,503.18	169,527.89	(24.71)	-0.01%
2013 Total	177,001.51	176,979.89	21.62	0.01%	168,930.40	168,929.28	1.12	0.00%

(1) Source: Annual Report Tonnage Report supporting detail: (4) RSMC Annual Reports 2016 part 1 / M1. Rolling 13 Month

(2) Source: SBR's 2016 December Report; Attachment A; Shoreway Center Inbound Detail Report

Tracking Inbound Tonnage Data

SBR tracks the following seven (7) major categories of Inbound Tons as reported in the Inbound Summary Report (Attachment 2) of their monthly, Quarterly and Annual Reports:

- Franchised Inbound Tons (Recology);
- Member Agency Vehicles Inbound Tons;
- Recology Maintenance Box Trucks;
- Self-Haul Tons;
- Buyback & Drop-Off Tons;

R3

Section 6

Review of
SBR Reported
In-Bound
Tonnage Data

- South Bay Internal Tons; and
- Non-Franchised Tons.

Non-Self-Haul Tons

With the exception of self-haul tons (other than self-haul C&D and inerts) which are not weighed, all of SBR’s reported line item tonnages for each of the above major categories of Inbound Tons are weighed and recorded in the monthly PC Scales data input sheet (Attachment AA – Data Entry Form 1 from PCS) that supports SBR’s Monthly Inbound Tons Report. The line item tonnages listed in the Monthly Inbound Reports are electronically linked to Attachment AA. The data in Attachment AA is manually inputted largely from reports generated from the PC Scales data base.

Findings:

To verify the accuracy of the reported input tonnages R3:

- ✓ Tied the data reported on Attachment AA for that same sample month to the supporting PC Scales generated reports and other supporting documents, without exception.

Self-Haul Tons

Inbound self-haul tons are calculated by subtracting the Total MSW Inbound Tons from the Total MSW Outbound Tons (Attachment AB) (e.g., in December 2016 there was total of 17,873.56 outbound tons MSW and 15,786.07 tons of inbound MSW recorded in the PC Scales system, the difference of which (2,087.49 tons) is assumed to be the tonnage associated with self-haul material entering the facility, which was recorded on a volume (cubic yard basis).

Self-haul PC Scale recorded volumes (cubic yards) for self-haul material are then converted into tons by:

- Calculating the percentage of the total volume of self-haul solid waste associated with each Member Agency (e.g., Atherton had 45 cubic yards of self-haul solid waste recorded in December 2016 out of a total of 4,461.00 total self-haul solid waste yardage or 1.01% of the total self-haul volume of solid waste); and
- Multiplying that percentage by the calculated self-haul tonnage of 2,087.49 tons, (which, for example, in the case of Atherton results in a total of 21.06 tons of self-haul material allocated Atherton for December 2016).

Findings:

- ✓ R3 confirmed the accuracy of the calculated Self-Haul tonnage.

Review of Inbound Member Agency Tonnage Data

Member Agency Vehicles

Tonnages for inbound Member Agency vehicles are reported on SBR’s Inbound Tons Report for the following five (5) categories:

- Municipal Solid Waste;

R3

- Recyclables;
- Green/Organics;
- Inert/C&D; and
- Tires

Findings:

- ✓ For a sample month, R3 tied the overall Member Agency reported tonnages for each of the above categories to the PC Scales Data Entry Form (Attachment A of the Monthly Report supporting Excel file). We also tied the tonnage on the PC Scales Data Entry Form to the Member Agency Tonnage Report by Material data download from the PC Scales data base, without exception.

Transfer Station & Third Party Tonnages

SBR also reports Transfer Station & Third Party Tonnages for tonnages by Member Agency for the following sources (Attachment 9 Member Agency Tonnage Support):

- Self-Haul Solid Waste;
- MRF Residue;
- Transfer Station & Other Recycling;
- Self-Haul Green Waste; and
- Self-Haul Inert/C&D.

Self-Haul Solid Waste

As discussed above, inbound self-haul tons are calculated by subtracting the Total MSW Inbound Tons from the Total MSW Outbound Tons (Attachment AB “Yardage Data by Origin for MSW” of the Monthly Report supporting Excel file).

Findings:

- ✓ R3 tied the reported MSW yards by Member Agency on Attachment AB for a sample month to the supporting PC Scales data base and confirmed the accuracy of the associated conversion of yardage to tons without exception.

MRF Residue¹²

MRF residue ties to Attachment AD (“Data Entry Residual Allocation by Origin” of the Monthly Report supporting Excel file), which is generated using Member Agency allocation data provided by Recology in its monthly MIS Report.

Findings:

- ✓ We tied the reported MRF Residue tonnage for a test sample to the supporting PC Scales data base.

R3

¹² MRF residue from the sort line that goes over the Thayer Belt Scale that is calibrated every shift.

Section 6

Review of
SBR Reported
In-Bound
Tonnage Data

Transfer Station & Other Recycling

This category is comprised of Appliances, Mattresses, Refrigerators and Tires. Transfer Station & Other Recycling is calculated in a manner similar to MSW above, on Attachment AC (“Recycling Origin Information” of the Monthly Report supporting Excel file), which ties directly to PC Scales volume inputs.

Findings:

We tied the reported Transfer Station & Other Recycling tonnage for a test sample to the supporting PC Scales data base.

Self-Haul Green Waste

Self-Haul Green Waste is calculated in a manner similar to MSW above on Attachment AC (Self Haul and Yardage Allocation by Origin).

Findings:

- ✓ We tied the reported Self-Haul Green Waste tonnage for a test sample to the supporting PC Scales data base without exception.

Self-Haul Inert/C&D

Self-Haul Inert/C&D is calculated in a manner similar to MSW above on Attachment AC (Self Haul and Yardage Allocation by Origin), which ties directly to PC Scales volume inputs.

Findings:

- ✓ We tied the reported Self-Haul Inert/C&D tonnage for a test sample to the supporting PC Scales data base without exception.

R3

Section 7. Review of SBR Liquidated Damages

The objectives of this task were to:

- Verify Liquidated Damages payments have been properly calculated in accordance with the Operating Agreement and tie to the reported events; and
- Verify and explain SBR's procedures to identify and report events which would trigger Liquidated Damages.

Review of Liquidated Damages Payments

Background

Attachment 10 of SBR's operating agreement specifies the following Liquidated Damage events:

- Failure to meet Vehicle Turnaround Guarantee;
- Failure to receive vehicles during Operating Hours;
- Failure to remedy a litter complaint within 5 hours of notification;
- Failure to provide excellent customer service;
- Timeliness of submission of reports to RethinkWaste;
- Failure to make records available upon request; and
- Failure to notify RethinkWaste of intent to use subcontractors.

Attachment 10 of SBR's 2016 Quarterly and Annual Reports included no reported instance of service issues that would trigger the payment of Liquidated Damages.

Findings:

- ✓ We verified that the Liquidated Damage amounts reported in Attachment 10 of its December Monthly Reported tied to those listed in Attachment 10 of its Operating Agreement.
- ✓ In addition, while SBR reported no Liquidated Damages associated with "Failure to Meet Vehicle Turnaround Guarantees," we noted that it has not actively tracked the data that would support that finding (see Review of Liquidated Damage Reporting Procedures on the following page).

Recommended Adjustment – None.

R3

Section 7

Review of
SBR
Liquidated
Damages

Review of Liquidated Damage Reporting Procedures

As part of our review of SBR's Liquidated Damages, R3 met with SBR management staff and RethinkWaste's Facility Operations Contract Manager. SBR reported among other things that, while it has the capabilities to track various data related to Liquidated Damages (e.g., Vehicle Turnaround Guarantee), that data is not actively tracked. RethinkWaste's Facilities Operations Contract Manager reported that RethinkWaste was aware of the fact that the data was not actively being tracked but also reported that RethinkWaste is not aware of any issues related to those items for which Liquidated Damages apply. The Facility Operations Contract Manager also reported that should RethinkWaste become aware of any potential issues in the future it would require SBR to actively track any associated data for purposes of assessing compliance.

R3

Section 8. Status of Prior Year's Recommendations

This section includes a consolidated list of the recommendations included throughout this report:

Sections 1 – 3

No recommendations

Section 4: Review of Recology Reported Customer Service Data

Recommendation #1 – Request that Recology explain the cause of the R3's observed differences in customer service data accuracy between the first and second half of calendar year 2015 (i.e., explain the increased accuracy in the second half of 2015 as compared to the first half). Understanding the cause of this change may help to identify successful methods for improving the quality of reported data going forward.

Recommendations were provided to Recology in the Annual Report Audit published July of 2016. Recology made changes to accommodate this request that took effect starting with the June 2016 monthly report (completed in July). The data used to create M2 Ticket Summary in the first half of 2016 came from a summary TQR4 report of ticket data. For the June 2016 Monthly Report and thereafter, Recology did prepare monthly report data as recommended by R3.

Recommendation #2 – Recology's Dispatch Supervisors should continue to review all Supervisor tickets weekly to ensure that procedures are being followed and tickets are being closed with detailed resolutions. "Attention Operations" and "Reminder to Service" and any other similarly coded tickets should be reviewed weekly by the Route Supervisors to ensure they were coded correctly as missed pick-up complaints or as items subject to liquidated damages. **[A similar recommendation was also presented as part of our 2013 and 2014 Reviews.]**

Recology continues to follow procedures to help ensure that the correct tickets are entered and reported.

Status of
Prior Year's
Recommendations

R3

Section 8

Status of
Prior Year's
Recommendations

Sections 5 – 7

No recommendations

General Recommendations

Recommendation #3 – Going forward, as part of their Annual Reports, Recology and SBR should provide RethinkWaste with an electronic data package that includes all necessary information to complete an audit such as the one represented by this report. Specifically, that data should include:

- **Recology:** TQR4 Reports, Missed Pickup Reports, and Web Ticket data for all 12 months; Phone Stat files for all 12 months; Supporting spreadsheets for annual report tables (M1a, M1b, M1c, M1d, etc.), including all Liquidated Damage and Incentive/Disincentive calculations; Split Tables; Monthly Query Data Files for all 12 months; and biannual contamination sampling results.
- **SBR:** Electronic copies (i.e., Excel spreadsheets) of all monthly, quarterly, and annual reports; Attachments AA, AB, AC and AD; supporting PC Scales Reports; A – Inbound Tonnage Reports; B – Outbound Tonnage Reports; C – Mass Balance; D – Self-Haul Reconciliation; and SBR – Monthly Reporting Summary.

Per Recology, the data used to produce M2 was not provided to the SBWMA and was not requested until the announcement of the audit. All files were ready and provided promptly when notified of the audit. Spreadsheets with the report table information (M1a, M1b, M1c, M1d, etc.) and liquidated damages and incentive/disincentive calculations are provided to the SBWMA on a monthly/quarterly basis. Biannual contamination sampling results are provided to the SBWMA by the firm conducting the sampling.

R3

Section 9. Current Year Recommendations

This section includes a consolidated list of the recommendations included throughout this report:

Sections 1 – 3

No recommendations

Section 4: Review of Recology Reported Customer Service Data

Recommendation #1 – Recology’s Dispatch Supervisors should continue to review all Supervisor tickets weekly to ensure that procedures are being followed and tickets are being closed with detailed resolutions. “Attention Operations” and “Reminder to Service” and any other similarly coded tickets should be reviewed weekly by the Route Supervisors to ensure they were coded correctly as missed pick-up complaints or as items subject to liquidated damages. ***[A similar recommendation was also presented as part of our 2013, 2014, and 2015 Reviews.]***

Sections 5 – 7

No recommendations

(General Recommendations continued on next page)

R3

Section 9

Current Year
Recommendations

General Recommendations

Recommendation #2 – Recology and SBR should provide RethinkWaste with an electronic data package that includes the following information which is necessary to complete the audit. This data package should be provided by March 1st of each year:

- **Recology:** TQR4 Reports, Missed Pickup Reports, and Web Ticket data for all 12 months; Phone Stat files for all 12 months; Supporting spreadsheets for annual report tables (M1a, M1b, M1c, M1d, etc.), including all Liquidated Damage and Incentive/Disincentive calculations; Split Tables; Monthly Query Data Files for all 12 months; and biannual contamination sampling results.
- **SBR:** Electronic copies (i.e., Excel spreadsheets) of all monthly, quarterly, and annual reports; Attachments AA, AB, AC and AD; supporting PC Scales Reports; A – Inbound Tonnage Reports; B – Outbound Tonnage Reports; C – Mass Balance; D – Self-Haul Reconciliation; and SBR – Monthly Reporting Summary.

[A similar recommendation was also presented as part of our 2015 Review.]

R3