Rethink waste
South Bayside Waste Management Authority

A Public Agency

NEW BUSINESS

Agenda Item 3

STAFF REPORT

To:	SBWMA Board Members
From:	Kevin McCarthy, Executive Director
	Marshall Moran, Finance Manager
Date:	September 12, 2013 Board of Director's Meeting
Subject:	Briefing on Contractors' Annual Compensation Adjustment Process

Recommendation

This staff report is for discussion purposes only and no formal action is requested of the Board of Directors.

Analysis

Staff will make a presentation at the Board meeting to address, at a minimum, the following items related to the annual contractors' (i.e., Recology San Mateo County and South Bay Recycling) compensation adjustment process:

- Overview of compensation adjustment process and determination of the total revenue requirement by Member Agency
- Specific issues related to Recology's compensation adjustment application
  - Recology proposed change to collection fleet
  - Impact of Member Agency Franchise Agreement Changes to Annual Performance Incentive/Disincentive Payments
  - Questions brought up by Member Agencies regarding the August 16th SBWMA Draft Rate Reports
- Member Agency rate revenue surplus
  - Strategies for addressing surplus
  - Timing issues for Recology retaining surplus and when pay back
- Residential solid waste rates vs. costs
  - How Member Agencies are addressing

Related to the last bullet point, attached you will find a staff report on this topic that was sent to the new Board Members and old Board Members on July 25, 2013.

Background

On August 16, 2013 the SBWMA sent out its draft reports on reviewing Recology and South Bay Recycling annual compensation adjustment applications with comments due back from Member Agencies by August 30th. The August 16th SBWMA report on Recology's compensation included a July 30, 2013 redline version of Recology's original compensation application submitted on June 14, 2013. Member Agencies were to provide comments on that June 14th submittal by July 8th.

Fiscal Impact

There is no fiscal impact associated with this item.

Attachments:

A - July 25, 2013 Staff Report on Review of Cart Migration Data for Member Agencies and Rates vs. Costs Analysis

STAFF REPORT

To:	SBWMA Member Agency Staff
From:	Marshall Moran, Finance Manager
	Cliff Feldman, Recycling Programs Manager
Date:	July 25, 2013
Subject:	Review of Cart Migration Data for Member Agencies and Rates vs. Costs Analysis

Recommendation

This staff report is for discussion purposes only and no formal action is requested. This report covers all eleven agencies except East Palo Alto which only offers the 96 gallon cart and is therefore unaffected by these issues.

Analysis

Cart Migration Analysis

This staff report is a follow up to information provided at the July 26, 2012 Board meeting on residential cart migration affecting residential revenue and rate setting. This report presents an update on residential customers changing service levels (cart sizes) (i.e., cart migration) from March 2012 through March 2013 (Attachment A).

The purpose of this report is to update the agencies on the impact to revenue from customers "migrating" to smaller cart sizes with lower rates. This generally results in less revenue and could have a negative impact on a compensation shortfall owed to Recology. The overall estimated impact from cart migration from 2012 to 2013 is a revenue loss of $380,274. However, the trend is very favorable. Last year in July 2012, we reported a total revenue loss of $1,615,570 from cart migration. The table below shows the three year trend:

	Estimated Revenue Loss from Cart Migration	
2011	$ (899,833)	July 2010 to July 2011
2012	$ (1,615,570)	July 2011 to March 2012
2013	$ (380,273)	March 2012 to March 2013

The actual revenue impact from cart migration for any given Member Agency cannot be determined since we do not know the timing of when the change occurred during the past year (i.e., it is difficult if not impossible to ascertain exactly when all the changes were made since customers can change their service levels at any time). These changes could be for one month or twelve months. In addition, the data includes changes in the number of carts being serviced so the migration impact alone is diluted. The projected revenue shown also does not include any Attachment Q fees such as for cart rental.

However, it is important to point out that cart migration generally results in less revenue being generated and needs to be considered when establishing rates for the next rate year (i.e., 2014). As a reminder, the draft 2014 SBWMA Consolidated Rate Report to be issued on August 16 will provide the recommended rate adjustments based in part on factors including revenue shortfall/overage projections at current revenue levels and all cost based adjustments to collection services such as disposal expense and Agency fees. Agencies may want to consider collecting additional revenue to offset any potential revenue shortfall from residential (cart migration) and commercial customers in their rate setting adjustment. Further, the revenue requirement figures in the 2014

SBWMA Consolidated Rate Report will be binding on each Member Agency and interest will accrue on any revenue shortfall owed to Recology once this report is approved by the Board in September.

Rates vs. Costs Analysis

Other factors that contribute to a deficit in revenue generation that needs to be taken into account when establishing future rates include the extent to which an agency adopts "progressive" rates and the timing of rate increases. Member Agencies that adopt more progressive rates (i.e., those that offer the smaller cart sizes such as the 20 and 32 gallon carts at the highest "discounts" in relation to the actual cost of service) may exacerbate the loss of revenue associated with cart migration. Attachment B provides details on how 2013 residential rates charged by service level compare to 2014 costs (per 2014 Recology Compensation Application) by cart size. In all cases, Member Agency rates for 20-gallon and 32-gallon service levels are substantially below actual costs. Conversely, nearly all Member Agency rates for the 64-gallon and 96-gallon service levels are substantially above actual costs.

One important consideration when establishing residential garbage rates is that the cost to service the four cart sizes is not proportional to the size difference of the carts (as shown in Attachment A, section B), due to factors such as:

1. The cost includes the cost to service garbage (black), recycling (blue), and organics (green) carts. Only the black cart size changes with the cart selection – the other two are constant.
2. The cost to service all four cart sizes is approximately the same.
3. Only the solid waste disposal expense changes with the different black cart sizes.

The timing of when rate increases are effective is also important. Rate increases effective after January 1 will generate a revenue shortfall unless they are made retroactive or increased to make up for the lost time at the new rates.

Background

The Franchise Agreements for Collection Services with Recology fundamentally improved the offering of services provided to customers including weekly single stream recycling and other services. Overall, our customers in the SBWMA service area are very pleased with the new services-. Based on findings of a statistically representative survey, a total of 88.2 percent of the residents surveyed said they were "very satisfied" and "somewhat satisfied" overall with the CartSMART Recycle, Compost and Garbage collection services, while only 6.4 percent said they were "somewhat dissatisfied" or "very dissatisfied."

There is also a heightened level of responsibility on Member Agencies to establish rates to pay for these services. The Franchise Agreements with Recology stipulate that the Member Agencies have a contractual obligation to set rates to cover Recology's approved compensation, pass-through costs such as Agency franchise fees and disposal and processing at Shoreway, and any prior year's revenue shortfall. The past use of a Balancing Account with Allied Waste/Republic Services is not part of the new Agreement with Recology and thus Member Agencies need to adjust rates annually as necessary.

Fiscal Impact

There is no fiscal impact to SBWMA. The fiscal impact, if any, on the Member Agencies will be addressed during each respective Agency's rate setting process.

Attachments:

Attachment A – Cart Migration Tables
Attachment B – Rates vs. Costs Tables

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: SBWMA TOTAL

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	17,922	20.0%	19,182	21.3%	1,260	7.0%	$ 19,550	$ 234,602
32 gallon	51,899	57.8%	51,569	57.2%	-330	-0.6%	$ (9,381)	$ (112,569)
64 gallon	16,419	18.3%	16,172	17.9%	-247	-1.5%	$ (13,300)	$ (159,603)
96 gallon	3,587	4.0%	3,275	3.6%	-312	-8.7%	$ (28,559)	$ (342,703)
TOTAL	**89,827**	**100.0%**	**90,198**	**100.0%**	**371**	**0.4%**	**$ (31,689)**	**$ (380,273)**
% Change			0.4%				-1.1%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service,additional cart rental fees, etc.

The "Total" excludes East Palo Alto which only offers one cart size (i.e., 96 gallon).

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: ATHERTON

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	437	18.6%	463	19.7%	26	5.9%	$ 702	$ 8,424
32 gallon	903	38.3%	903	38.4%	0	0.0%	$ -	$ -
64 gallon	589	25.0%	585	24.9%	-4	-0.7%	$ (440)	$ (5,280)
96 gallon	426	18.1%	403	17.1%	-23	-5.4%	$ (3,772)	$ (45,264)
TOTAL	**2,355**	**100.0%**	**2,354**	**100.0%**	**-1**	**0.0%**	**$ (3,510)**	**$ (42,120)**
% Change			0.0%				-1.8%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: Belmont

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	1,629	24.3%	1,744	25.9%	115	7.1%	$ 2,216	$ 26,593
32 gallon	4,226	63.1%	4,216	62.6%	-10	-0.2%	$ (319)	$ (3,829)
64 gallon	733	11.0%	691	10.3%	-42	-5.7%	$ (2,953)	$ (35,441)
96 gallon	105	1.6%	87	1.3%	-18	-17.1%	$ (2,046)	$ (24,555)
TOTAL	**6,693**	**100.0%**	**6,738**	**100.0%**	**45**	**0.7%**	**$ (3,103)**	**$ (37,233)**
% Change			0.7%				-1.4%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: Burlingame

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		Monthly	Annualized
Service Levels	Number of Carts	Percent of Carts	Number of Carts	Percent of Carts	Number of Carts	Percent of Carts	Revenue	Revenue
20 gallon	1,174	17.9%	1,218	18.5%	44	3.7%	$ 568	$ 6,811
32 gallon	3,960	60.5%	3,978	60.3%	18	0.5%	$ 429	$ 5,152
64 gallon	1,129	17.2%	1,149	17.4%	20	1.8%	$ 954	$ 11,450
96 gallon	286	4.4%	251	3.8%	-35	-12.2%	$ (2,478)	$ (29,736)
TOTAL	**6,549**	**100.0%**	**6,596**	**100.0%**	**47**	**0.7%**	**$ (527)**	**$ (6,323)**
% Change			0.7%				-0.3%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: Foster City

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	1219	18.1%	1281	18.9%	62	5.1%	$ 733	$ 8,794
32 gallon	4541	67.3%	4530	66.7%	-11	-0.2%	$ (208)	$ (2,497)
64 gallon	847	12.6%	837	12.3%	-10	-1.2%	$ (378)	$ (4,541)
96 gallon	142	2.1%	139	2.0%	-3	-2.1%	$ (170)	$ (2,043)
TOTAL	**6,749**	**100.0%**	**6,787**	**100.0%**	**38**	**0.6%**	**$ (24)**	**$ (288)**
% Change			0.6%				0.0%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: Hillsborough

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	570	15.5%	594	16.1%	24	4.2%	$ 1,018	$ 12,211
32 gallon	1828	49.7%	1827	49.6%	-1	-0.1%	$ (53)	$ (630)
64 gallon	842	22.9%	853	23.1%	11	1.3%	$ 906	$ 10,877
96 gallon	440	12.0%	412	11.2%	-28	-6.4%	$ (3,287)	$ (39,446)
TOTAL	**3,680**	**100.0%**	**3,686**	**100.0%**	**6**	**0.2%**	**$ (1,416)**	**$ (16,988)**
% Change			0.2%				-0.6%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: Menlo Park

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	1,908	23.8%	1,949	24.4%	41	2.1%	$ 574	$ 6,883
32 gallon	4,330	54.1%	4,309	54.0%	-21	-0.5%	$ (491)	$ (5,897)
64 gallon	1,420	17.7%	1,396	17.5%	-24	-1.7%	$ (1,344)	$ (16,125)
96 gallon	346	4.3%	326	4.1%	-20	-5.8%	$ (1,674)	$ (20,093)
TOTAL	**8,004**	**100.0%**	**7,980**	**100.0%**	**-24**	**-0.3%**	**$ (2,936)**	**$ (35,232)**
% Change			-0.3%				-1.2%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: North Fair Oaks

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	25	0.9%	26	1.0%	1	4.0%	$ 26	$ 315
32 gallon	227	8.4%	251	9.2%	24	10.6%	$ 629	$ 7,548
64 gallon	2434	90.1%	2424	89.2%	-10	-0.4%	$ (524)	$ (6,290)
96 gallon	16	0.6%	18	0.7%	2	12.5%	$ 157	$ 1,887
TOTAL	**2,702**	**100.0%**	**2,719**	**100.0%**	**17**	**0.6%**	**$ 288**	**$ 3,460**
% Change			0.6%				0.2%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: Redwood City

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	4,397	25.4%	4,861	27.9%	464	10.6%	$ 5,280	$ 63,364
32 gallon	10,173	58.8%	9,949	57.2%	-224	-2.2%	$ (6,115)	$ (73,382)
64 gallon	2,171	12.5%	2,084	12.0%	-87	-4.0%	$ (4,751)	$ (57,013)
96 gallon	561	3.2%	504	2.9%	-57	-10.2%	$ (4,620)	$ (55,445)
TOTAL	**17,302**	**100.0%**	**17,398**	**100.0%**	**96**	**0.6%**	**$ (10,206)**	**$ (122,476)**
% Change			0.6%				-2.1%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: San Carlos

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	1,895	22.1%	2,025	23.5%	130	6.9%	$ 2,713	$ 32,557
32 gallon	5,320	61.9%	5,265	61.1%	-55	-1.0%	$ (1,715)	$ (20,579)
64 gallon	1,168	13.6%	1,148	13.3%	-20	-1.7%	$ (1,245)	$ (14,935)
96 gallon	205	2.4%	172	2.0%	-33	-16.1%	$ (3,084)	$ (37,006)
TOTAL	**8,588**	**100.0%**	**8,610**	**100.0%**	**22**	**0.3%**	**$ (3,330)**	**$ (39,963)**
% Change			0.3%				-1.1%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: San Mateo

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	3255	16.3%	3526	17.5%	271	8.3%	$ 3,534	$ 42,406
32 gallon	12019	60.1%	12006	59.7%	-13	-0.1%	$ (271)	$ (3,254)
64 gallon	3951	19.8%	3861	19.2%	-90	-2.3%	$ (4,131)	$ (49,572)
96 gallon	774	3.9%	705	3.5%	-69	-8.9%	$ (4,865)	$ (58,374)
TOTAL	**19,999**	**100.0%**	**20,098**	**100.0%**	**99**	**0.5%**	**$ (5,733)**	**$ (68,794)**
% Change			0.5%				-1.1%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: West Bay

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	474	21.5%	499	22.5%	25	5.3%	$ 583	$ 6,990
32 gallon	1236	56.0%	1229	55.4%	-7	-0.6%	$ (263)	$ (3,158)
64 gallon	402	18.2%	407	18.4%	5	1.2%	$ 369	$ 4,422
96 gallon	96	4.3%	82	3.7%	-14	-14.6%	$ (1,540)	$ (18,480)
TOTAL	**2,208**	**100.0%**	**2,217**	**100.0%**	**9**	**0.4%**	**$ (852)**	**$ (10,226)**
% Change			0.4%				-0.9%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

Single-Family Residential Collection Service Levels and Revenue Summary

SOLID WASTE COLLECTION SERVICE ONLY

Member Agency: Unicorporated County of San Mateo

					Year-Over-Year Variance		Revenue Impact: 2013 vs 2012	
	March 2012		*March 2013*		*March 2013 vs March 2012*		**Monthly**	**Annualized**
Service Levels	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Number of Carts**	**Percent of Carts**	**Revenue**	**Revenue**
20 gallon	939	18.8%	996	19.9%	57	6.1%	$ 1,605	$ 19,255
32 gallon	3136	62.7%	3106	61.9%	-30	-1.0%	$ (1,004)	$ (12,042)
64 gallon	733	14.7%	737	14.7%	4	0.5%	$ 237	$ 2,845
96 gallon	190	3.8%	176	3.5%	-14	-7.4%	$ (1,179)	$ (14,147)
TOTAL	**4,998**	**100.0%**	**5,015**	**100.0%**	**17**	**0.3%**	**$ (341)**	**$ (4,089)**
% Change			0.3%				-0.2%	

Note: These revenue figures are derived from Single-Family Dwelling Residential cart rates only and exclude all other revenue sources such as Commercial and Multi-Family account revenues and Attachment Q - Unscheduled services revenues from backyard service, additional cart rental fees, etc.

All data provided by Recology San Mateo County.

prepared by: SBWMA

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
RESIDENTIAL COLLECTION SERVICES -- RATES AND COSTS

2014 COST ESTIMATES vs 2013 RATES

	Atherton	Belmont	Burlingame	EPA	Foster City	Hillsborough	Menlo Park	N.Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Uninc SMC
March 2013 Number of Carts													
20 gallons	463	1,744	1,218	0	1,281	594	1,949	26	4,861	2,025	3,526	499	996
32 gallons	903	4,216	3,978	0	4,530	1,827	4,309	251	9,949	5,265	12,006	1,229	3,106
64 gallons	585	691	1,149	0	837	853	1,396	2,424	2,084	1,148	3,861	407	737
96 gallons	403	87	251	4,120	139	412	326	18	504	172	705	82	176
Total Carts	**2,354**	**6,738**	**6,596**	**4,120**	**6,787**	**3,686**	**7,980**	**2,719**	**17,398**	**8,610**	**20,098**	**2,217**	**5,015**
A. **2013 Cart Rates / Month**													
20 gallons	$ 27.00	$ 19.27	$ 12.90	$ -	$ 11.82	$ 42.40	$ 13.99	$ 26.21	$ 11.38	$ 20.87	$ 13.04	$ 23.30	$ 28.15
32 gallons	$ 55.00	$ 31.91	$ 23.85	$ -	$ 18.92	$ 52.50	$ 23.40	$ 26.21	$ 27.30	$ 31.18	$ 20.86	$ 37.60	$ 33.45
64 gallons	$ 110.00	$ 70.32	$ 47.71	$ -	$ 37.84	$ 82.40	$ 55.99	$ 52.42	$ 54.61	$ 62.23	$ 45.90	$ 73.70	$ 59.28
96 gallons	$ 164.00	$ 113.68	$ 70.80	$ 40.77	$ 56.76	$ 117.40	$ 83.72	$ 78.63	$ 81.06	$ 93.45	$ 70.50	$ 110.00	$ 84.21
B. **2014 Collection & Disposal Cost / Month**													
20 gallons	$ 86.18	$ 43.33	$ 40.59	$ -	$ 33.04	$ 62.35	$ 44.54	$ 38.77	$ 41.50	$ 41.23	$ 37.72	$ 45.18	$ 42.97
32 gallons	$ 87.57	$ 44.69	$ 41.94	$ -	$ 34.29	$ 63.60	$ 45.92	$ 40.37	$ 43.09	$ 42.60	$ 39.23	$ 46.53	$ 44.28
64 gallons	$ 91.28	$ 48.30	$ 45.54	$ -	$ 37.63	$ 66.93	$ 49.57	$ 44.65	$ 47.33	$ 46.27	$ 43.25	$ 50.14	$ 47.76
96 gallons	$ 94.98	$ 51.92	$ 49.15	$ 54.18	$ 40.97	$ 70.26	$ 53.23	$ 48.93	$ 51.57	$ 49.93	$ 47.28	$ 53.74	$ 51.24
C. **2013 Rate vs '14 Cost Variance ($)**													
20 gallons	($59.18)	($24.06)	($27.69)		($21.22)	($19.95)	($30.55)	($12.56)	($30.12)	($20.36)	($24.68)	($21.88)	($14.82)
32 gallons	($32.57)	($12.78)	($18.09)		($15.37)	($11.10)	($22.52)	($14.16)	($15.79)	($11.42)	($18.37)	($8.93)	($10.83)
64 gallons	$18.72	$22.02	$2.17		$0.21	$15.47	$6.42	$7.77	$7.28	$15.96	$2.65	$23.56	$11.52
96 gallons	$69.02	$61.76	$21.65	($13.41)	$15.79	$47.14	$30.49	$29.70	$29.49	$43.52	$23.22	$56.26	$32.97
D. **2013 Rate vs '14 Cost Variance (%)**													
20 gallons	-69%	-56%	-68%		-64%	-32%	-69%	-32%	-73%	-49%	-65%	-48%	-34%
32 gallons	-37%	-29%	-43%		-45%	-17%	-49%	-35%	-37%	-27%	-47%	-19%	-24%
64 gallons	21%	46%	5%		1%	23%	13%	17%	15%	35%	6%	47%	24%
96 gallons	73%	119%	44%	-25%	39%	67%	57%	61%	57%	87%	49%	105%	64%
	% rates are above / <below> cost												

Cost estimates are based on a cart count in March 2013. The cart count can vary.
Recology Collection cost is fixed after Board approval.

2014 Collection & Disposal Cost Detail / Month													
20 Gallon													
SW	$ 17.43	$ 15.57	$ 15.10		$ 13.68	$ 20.44	$ 15.07	$ 14.64	$ 15.13	$ 15.19	$ 14.85	$ 14.66	$ 14.44
Organics	$ 55.00	$ 17.06	$ 16.21		$ 10.38	$ 26.83	$ 19.08	$ 14.56	$ 16.00	$ 15.50	$ 14.18	$ 19.72	$ 18.11
Recycling	$ 13.76	$ 10.70	$ 9.27		$ 8.97	$ 15.08	$ 10.40	$ 9.57	$ 10.36	$ 10.53	$ 8.70	$ 10.80	$ 10.43
TOTAL Cost	**$ 86.18**	**$ 43.33**	**$ 40.59**	**$ -**	**$ 33.04**	**$ 62.35**	**$ 44.54**	**$ 38.77**	**$ 41.50**	**$ 41.23**	**$ 37.72**	**$ 45.18**	**$ 42.97**
32 Gallon													
SW	$ 18.82	$ 16.93	$ 16.46		$ 14.94	$ 21.69	$ 16.44	$ 16.24	$ 16.72	$ 16.57	$ 16.36	$ 16.01	$ 15.74
Organics	$ 55.00	$ 17.06	$ 16.21		$ 10.38	$ 26.83	$ 19.08	$ 14.56	$ 16.00	$ 15.50	$ 14.18	$ 19.72	$ 18.11
Recycling	$ 13.76	$ 10.70	$ 9.27		$ 8.97	$ 15.08	$ 10.40	$ 9.57	$ 10.36	$ 10.53	$ 8.70	$ 10.80	$ 10.43
TOTAL Cost	**$ 87.57**	**$ 44.69**	**$ 41.94**	**$ -**	**$ 34.29**	**$ 63.60**	**$ 45.92**	**$ 40.37**	**$ 43.09**	**$ 42.60**	**$ 39.23**	**$ 46.53**	**$ 44.28**
64 Gallon													
SW	$ 22.52	$ 20.54	$ 20.06		$ 18.27	$ 25.02	$ 20.10	$ 20.52	$ 20.96	$ 20.23	$ 20.38	$ 19.61	$ 19.22
Organics	$ 55.00	$ 17.06	$ 16.21		$ 10.38	$ 26.83	$ 19.08	$ 14.56	$ 16.00	$ 15.50	$ 14.18	$ 19.72	$ 18.11
Recycling	$ 13.76	$ 10.70	$ 9.27		$ 8.97	$ 15.08	$ 10.40	$ 9.57	$ 10.36	$ 10.53	$ 8.70	$ 10.80	$ 10.43
TOTAL Cost	**$ 91.28**	**$ 48.30**	**$ 45.54**	**$ -**	**$ 37.63**	**$ 66.93**	**$ 49.57**	**$ 44.65**	**$ 47.33**	**$ 46.27**	**$ 43.25**	**$ 50.14**	**$ 47.76**
96 Gallon													
SW	$ 26.23	$ 24.16	$ 23.67	$ 27.66	$ 21.61	$ 28.35	$ 23.75	$ 24.80	$ 25.20	$ 23.89	$ 24.40	$ 23.22	$ 22.70
Organics	$ 55.00	$ 17.06	$ 16.21	$ 17.54	$ 10.38	$ 26.83	$ 19.08	$ 14.56	$ 16.00	$ 15.50	$ 14.18	$ 19.72	$ 18.11
Recycling	$ 13.76	$ 10.70	$ 9.27	$ 8.99	$ 8.97	$ 15.08	$ 10.40	$ 9.57	$ 10.36	$ 10.53	$ 8.70	$ 10.80	$ 10.43
TOTAL Cost	**$ 94.98**	**$ 51.92**	**$ 49.15**	**$ 54.18**	**$ 40.97**	**$ 70.26**	**$ 53.23**	**$ 48.93**	**$ 51.57**	**$ 49.93**	**$ 47.28**	**$ 53.74**	**$ 51.24**

STAFF REPORT

To:	SBWMA Board Members
From:	Robert J. Lanzone, SBWMA Legal Counsel
Date:	September 12, 2013 Board of Director's Meeting
Subject:	Resolution Approving Response to the San Mateo County Civil Grand Jury Report Entitled "South Bayside Waste Management Authority Board – Elected Officials or Senior Management Staff"

Recommendation

It is recommended that the SBWMA Board discuss the Report, Exhibit A hereto, and the Draft Response (the letter to the Presiding Judge of the Civil Grand Jury), Exhibit B hereto, provide input, and approve the attached Resolution 2013-18 and authorize the Board Chair to send the Board's Response to the Presiding Judge of the Civil Grand Jury.

Analysis

The draft Response (Exhibit B) is detailed and should be read thoroughly by the Board Members. There are only three items that we wish to highlight for the Board:

1. Findings 5 and 6 address having elected officials on the SBWMA Board. The Findings disagree with the Grand Jury comments, and point out that since the date of the Grand Jury Report the JPA was amended to have the Board be composed of only elected officials.

2. Finding 7 calls for a Technical Advisory Committee (TAC) to assist the Board of elected officials, and the Response agrees with this Finding and indicates that the new Board has already addressed this issue at its first meeting.

3. Recommendation R5 of the Grand Jury indicates the SBWMA should disseminate more information to the public regarding the operation and processes of the SBWMA. The Board's Response agrees with the Recommendation and goes into detail as to how the SBWMA has addressed this issue to date and discusses educational activities planned for the immediate future.

Background

On June 17, 2013 the San Mateo County Civil Grand Jury ("Grand Jury") filed a report with the San Mateo Superior Court regarding whether the South Bayside Waste Management Authority (SBWMA) Board should be reconfigured to be composed entirely of elected officials and other matters. The Superior Court requires the Board to submit a response to the report's findings and recommendations no later than September 16, 2013, and that the response be approved by the Board at a public meeting.

Fiscal Impact

There is no fiscal impact associated with this item.

Attachments:
Resolution 2013 -18
Exhibit A – Grand Jury Report
Exhibit B – Draft Response

RESOLUTION NO. 2013-18

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY APPROVING A RESPONSE TO THE SAN MATEO COUNTY CIVIL GRAND JURY REPORT OF JUNE 17, 2013

RESOLVED by the Board of Directors of the South Bayside Waste Management Authority (SBWMA) that:

WHEREAS, the San Mateo County Civil Grand Jury issued a report dated June 17, 2013 (the Report) regarding certain SBWMA policies and practices and requested a response to the Report within sixty (60) days, and;

WHEREAS, attached hereto as Exhibit B is a letter addressed to the Presiding Judge of the Civil Grand Jury (the Response), and;

WHEREAS, the Response has been reviewed and considered by the SBWMA Board at its meeting in open session on September 12, 2013.

NOW, THEREFORE, BE IT RESOLVED that the Response is approved and the Board Chair is authorized to send the Response to the Presiding Judge of the Civil Grand Jury.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on this 12th day of September, 2013, 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. 2013-18 was duly and regularly adopted at a special meeting of the South Bayside Waste Management Authority on September 12, 2013.

ATTEST: _____
Jeff Ira, Chairperson of SBWMA

_____
Cyndi Urman, Board Secretary

This is an advanced copy of a Grand Jury report that will be publicly released on June 17, 2013. Penal Code section 933.05 (f) prohibits any officer, agency, department, or governing body of a public agency from disclosing any contents of the report prior to the public release of this report.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD – ELECTED OFFICIALS OR SENIOR MANAGEMENT STAFF?

SUMMARY

The South Bayside Waste Management Authority (SBWMA), also known as Rethink Waste, is a 12-member joint powers authority formed in 1982. Its membership is composed of Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, San Mateo County (County), and the West Bay Sanitary District (collectively, Member Agencies). It is governed by a First Amended and Restated Joint Exercise of Powers Agreement (Restated Agreement) executed in 2005.

The mission of SBWMA is to provide cost-effective waste reduction, recycling, and solid waste programs to its Member Agencies and to oversee the Shoreway Environmental Center recycling facility (Shoreway) in San Carlos. It was formed so its Member Agencies could collectively negotiate more favorable rates for waste collection and disposal. SBWMA negotiates with and regulates the waste hauling provider and the operator of Shoreway.

SBWMA's Board of Directors (Board) is composed of one senior management staff member appointed by each Member Agency.

Shoreway was built, at significant cost (approximately $17 million) in order to comply with state mandated waste stream diversion goals. It receives and processes recyclables, organics and garbage, and houses a new education center. The changes in waste disposal and recycling requirements have been followed by significant cost increases to customers.

In 2011, after Recology replaced Allied Waste as SBWMA's waste hauler and South Bay Recycling (SBR) became the operator of the new Shoreway recycling center, the public expressed concerns about service changes and waste hauling rate increases. An example of a service change is a change in the frequency of recycling pick-up from every other week to once weekly. In addition, there was confusion about the selection process used in selecting a new waste hauler. Much of the public does not fully understand the role of SBWMA in the waste hauler selection process.

Questions have been raised by some Member Agencies as to whether only senior Member Agency management staff should continue to comprise the Board or whether it should be composed of only elected officials from the Member Agencies' governing bodies, e.g. City Council members. As a result, a Blue Ribbon Task Force (Task Force) composed of Member Agencies began meeting in February 2013 to review the SWBMA governance structure. The approval of eight of the twelve Member Agencies is required to make changes to the SBWMA governance structure.

This is an advanced copy of a Grand Jury report that will be publicly released on June 17, 2013. Penal Code section 933.05 (f) prohibits any officer, agency, department, or governing body of a public agency from disclosing any contents of the report prior to the public release of this report.

The 2012-2013 San Mateo County Civil Grand Jury (Grand Jury) finds public concern over rate and service changes has prompted a review of SBWMA's governance structure and that SBWMA's organizational structure is a complex issue not well understood by the public. The Grand Jury further finds that Member Agencies set their own rates that may include a variety of fees and that only customers in the City of San Mateo receive bills that itemize charges. Finally, the Grand Jury finds that elected officials already have sufficient influence in SBWMA's decision making process and there is no demonstrable advantage to changing the Board composition from only senior management staff to only elected officials.

The Grand Jury recommends that the Member Agencies and SBWMA disseminate comprehensive information about SBWMA operations, its franchisees, and rate setting processes to its customers. In addition, it recommends that each Member Agency request that Recology provide detailed billing statements to the customers in the Member Agency's jurisdiction that disclose all fees, including those imposed by the Member Agency. The Grand Jury further recommends that Member Agencies continue the current practice of appointing only senior management staff to the Board in accordance with the Restated Agreement. Finally, the Grand Jury recommends that if the Restated Agreement is amended to change the Board membership to elected officials, then a technical advisory committee consisting of staff with technical experience in waste management be put in place.

BACKGROUND

SBWMA was formed in 1982 so that its Member Agencies could negotiate more favorable rates for waste collection, transfer, hauling, and disposal.

From 1982 until January 1, 2011, Browning-Ferris Industries (BFI) was the franchise waste hauler for SBWMA. Several years ago, Allied Waste acquired BFI and changed the name. On January 1, 2011, Recology became SBWMA's new franchise waste hauler. Since Recology took over, there have been service changes and rate increases, leading to public concern and the call by some for a change in the composition of the Board from only Member Agencies' senior management staff to only elected officials.

With some Member Agencies questioning who should represent them on the Board, the Grand Jury decided an investigation into SBWMA, its governance, and operations was warranted.

METHODOLOGY

Documents

- Report from the City Manager of Redwood City to the City Council of Redwood City dated December 3, 2012
- A letter of invitation from the Redwood City Mayor to Mayors/Directors of the Member Agencies dated December 7, 2012
- SBWMA budget information

This is an advanced copy of a Grand Jury report that will be publicly released on June 17, 2013. Penal Code section 933.05 (f) prohibits any officer, agency, department, or governing body of a public agency from disclosing any contents of the report prior to the public release of this report.

- Franchise agreements/contracts (www.rethinkwaste.org)
- San Mateo Daily Journal, Thursday, May 9, 2013
- April 2, 2013, Task Force meeting agenda
- Minutes of Task Force meetings

Site Tours

- The Grand Jury was given a guided tour of the educational facility at Shoreway

Interviews

- The Grand Jury conducted interviews with SBWMA staff and Board members, representatives of Recology, South Bay Recycling, a Redwood City Council member representing that city's Utility Committee, and a member of the Task Force.

DISCUSSION

SBWMA

SBWMA was formed in 1982 and is now governed by the Restated Agreement. It was established so that Member Agencies collectively could negotiate favorable rates for waste collection, transfer, hauling, and disposal at a disposal site. One of its principal goals is to provide cost effective waste reduction, recycling, and solid waste programs to Member Agencies through franchised services and other recyclers. The goal is being achieved.[1]

Another principal goal is to sustain the minimum 50% diversion of waste from landfills as mandated by California State Law, AB 939.[2] The required diversion percentage will increase to 75% by 2017, which will necessitate additional programs and education for residents and businesses.

According to information provided to the Grand Jury, SBWMA's administrative operations were initially performed by San Carlos staff until the Board hired a day-to-day operations manager in 2006.

BFI built a transfer station in San Carlos in 1984. It collected the waste from its residential and business customers, transferred it into larger trucks at the transfer station, and transported it to the Ox Mountain disposal site in Half Moon Bay. Use of a transfer station was an important change because previously, trucks traveled to Ox Mountain on Highway 92, a narrow and busy roadway. The new transfer station put fewer trucks on the road and resulted in a more efficient operation. BFI/Allied Waste was the contractor for SBWMA since it was established in 1982

[1] The 2008-2009 Grand Jury report "TRASHTALK: Rethinking the Waste Management RFP Process by the South Bayside Waste Management Authority" states that Rethink Waste provides the lowest rates in the Bay Area.

[2] SBWMA website, http://www.rethinkwaste.org/ (April 14, 2012).

until 2011. BFI/Allied Waste was also and still is the owner and operator of the Ox Mountain disposal site.

The Member Agencies of SBWMA issued revenue bonds in 2000 to purchase the transfer station from Allied Waste. At the same time, SBWMA also purchased a recycling facility located adjacent to the transfer station.

The Restated Agreement, adopted in 2005, clarified that Board membership is limited to senior management staff, i.e., the following County, district, city, or town positions or their equivalent:

- Manger or assistant manager
- Finance director or assistant finance director
- Public works director or assistant public works director
- Environmental director or assistant environmental director[3]

After hiring SBWMA's manager, the Board developed a model for more efficient waste operations to comply with state law beginning in 2011 and issued requests for proposals (RFPs) from waste haulers and operators of the new recycling facility.

Through the RFP process, waste haulers and recycling facility operators competed for the multi-year contracts and presented their proposals to each of the governing bodies of the Member Agencies. The elected officials of each Member Agency told its Board representative which companies the Board should select. Recology was selected as the waste hauler as a result of this process. SBR was selected to operate the recycling center. Both contracts were for 10 years commencing January 1, 2011

Shoreway

Shoreway serves as a regional solid waste and recycling plant for the receipt, handling, and transfer of solid waste and recyclables collected from the SBWMA service area, (southern and central San Mateo County as shown on Appendix A). SBWMA owns and manages Shoreway and, as part of the master facility plan, built a state-of-the-art environmental education center in the recycling facility adjacent to the transfer station.

Residential and commercial solid waste and recyclable and organic materials collected by the franchise hauler, Recology, are taken to Shoreway for processing, staging and shipment. In addition, the public can bring material to Shoreway to be recycled or taken to the disposal site. Construction material can also be dropped off for recycling.

Elected officials of the Member Agencies approved construction of a new recycling facility at the transfer facility site in San Carlos so that state-of-the-art equipment could process recyclables as required by law. On January 1, 2011, SBR began operating the Shoreway recycling plant under a 10-year contract with SBWMA. SBWMA adopted the trade name "Rethink Waste." As

[3] Restated Agreement Section 8.1.

Rethink Waste, SBWMA has been favorably recognized for its innovative waste reduction, recycling programs, and facility infrastructure.

Some interviewees questioned the need for an education center which was built to educate the public about waste diversion. Schools are given guided tours through the Shoreway facility. Guided tours are also available to other groups and the general public.

Most of the individuals interviewed by the Grand Jury, admittedly involved in the process, thought the education center to be a valuable resource. SBWMA management estimates it costs $150,000 annually to operate the education center. With 93,000 residential and 10,000 commercial SBWMA customers, the cost of the education center is less than $1.50 per customer per year.

Revenue Sources

SBWMA receives revenue from several sources: Tipping fees from Recology (a charge for the tonnage brought to Shoreway); proceeds from the sale of recycled material; and fees charged for materials brought to Shoreway by the public.

Collection Rates for Customers

Collection rate increases have been controversial and confusing because most Recology customers do not realize that each Member Agency sets collection rates within its jurisdiction. Rates are different for each Member Agency. For example: a 20-gallon cart in Foster City costs $11.82 per month but in Hillsborough the same cart costs $42.40.

There are many reasons for differences in rates among Member Agencies. For example:

- Each Member Agency negotiates its own contract with Recology for the services desired by it within its jurisdiction.
- Member Agencies may select different services. For example, one Member Agency opted to have recyclables picked up weekly rather than bi-weekly.
- Geographic differences in Member Agencies' jurisdictions can affect cost. Some locations are flat (less expensive to service) while some have narrow streets or hills (more expensive to service).
- Member Agencies may add additional fees such as franchise fees, street sweeping fees, vehicle impact fees, and rate stabilization fees.
- As explained below, amounts owing to Allied Waste at the end of its contract varied among Member Agencies.

In 2011, when the contracts with SBR and Recology began and the contract with Allied Waste ended, there was a balance of about $11 million dollars owed to Allied Waste by the Member Agencies. Allied Waste had a cost plus contract with SBMWA, which meant it calculated costs and added a percentage for profit. Each year as costs continued to rise, Member Agencies owed more to Allied Waste. Some Member Agencies rolled over the balance due to the next year

instead of raising rates. When the Allied Waste contract ended, however, these Member Agencies had to pay the remaining balance. Some paid the remaining balance from their own funds, while others raised customer rates. There were different amounts owed by Member Agencies, which also contributed to different rates among Member Agencies.

Another cause for increasing rates is that the Ox Mountain dumping facility increased its rates because less waste was being delivered to it as a result of increases in recycling.[4]

Yet another factor contributing to rate increases after Recology became the waste hauler was the labor contracts negotiated by Allied Waste before its contract ended but which remained binding on Recology. These contracts increased labor costs.

Rate and Billing Information

Recology bills the residents and commercial businesses it serves and then pays the Member Agencies their fees. In all Member Agencies except for the City of San Mateo, Recology's billing statement to the customer contains only one charge and does not itemize other city charges. City of San Mateo customers receive an itemized statement showing the following additional city charges: waste, street sweeping, and landfill closure fee. Recology states it does this for the City of San Mateo because the City requested it. Recology can do this for other Member Agencies upon request. Waste collection rates are very complex. Itemizing the bill would remove some of the confusion and mystery from rate charges. During its investigation, the Grand Jury found that most Member Agencies' websites did not give detailed information on collection rates.

Governance of SBWMA

Since SBWMA was established, there has been discussion by some local lawmakers regarding whether elected officials or Member Agency senior management staff should be on the Board. Currently, only senior management staff serves on the Board.

Section 8.1 of the Restated Agreement states:

> The SBWMA shall be governed and administered by a Board composed of one Director from each member. The Board shall exercise all powers and authority on behalf of the SBWMA. Each member must select its Director or the Director's designee alternate from the following positions:
>
> - County, District, City or Town Manager, or the equivalent position
> - County, District, City or Town Assistant Manager, or the equivalent position
> - Finance Director or Assistant Finance Director, or the equivalent position

[4] Ox Mountain has fixed operating costs that must be covered irrespective of the amount of waste disposed there. Thus, lower usage can result in a higher per unit cost.

- Public Works Director or Assistant Public Works Director, or Environmental Programs Manager, or equivalent position[5]

Since adoption of the Restated Agreement, only senior management staff has served on the Board. The Grand Jury found through its interviews that there might be two reasons for this type of governance:

1. Member Agencies wanted to create a "buffer" between elected officials and waste contractors.
2. Most city councils showed little interest in having their members serve on the Board because waste disposal was not a "hot issue." In 1982, the waste industry was less complex than today - there was one contractor, BFI, which collected the waste and transported it to the disposal site that it operated.

Through its investigation, the Grand Jury discerned two principal questions pertaining to SBWMA governance:

1. ***Is there a need to change the governance structure to have only elected officials or a combination of elected officials and senior management staff on the SBWMA Board*?**

This question implies that elected officials might be able to provide better oversight and direction than the current Board composed of only senior management staff from a variety of departments. The answer to the question is determined by the level of operational expertise each Member Agency desires its Board representative to possess. If a higher level of expertise is desired, then the Board should be composed of senior management staff; if not, elected officials should be seated on the Board.

2. ***Were elected officials involved in the process that selected Recology as the new franchise waste hauler*?**

This question implies that elected officials were not sufficiently involved in the selection of Recology. According to the following abbreviated timeline, however, elected officials were significantly involved with the decision to contract with Recology:

- September 2007 - Member Agencies approved release of the RFP for a waste hauler
- October 2008-February 2009 - Member Agencies approved the SBWMA's recommendation to select Recology
- May-June 2009 - SBWMA staff briefed the governing bodies of Member Agencies on the implications of key contract decision points (e.g., default cart-sizes, optional programs, performance bond)
- June 2009 – The governing bodies of Member Agencies confirmed key contract decisions
- June-July 2009 - Member Agencies commenced review of draft franchise agreements

[5] 2008 San Mateo County Civil Grand Jury report on SBWMA, http://www.sanmateocourt.org/documents/grand_jury/2008/trashtalk.pdf

- August 2009-February 2010 - Member Agencies executed franchise agreements as approved by their governing bodies

In 2005, the Restated Agreement, including the following amendments, was submitted to the Member Agencies for approval:

1. Establishing criteria to insure that only senior management Member Agency staff serves on the Board in lieu of the prior practice that allowed any agency staff appointed by each agency's City Manager, County Manager, or General Manager to serve.

2. Requiring that key Board actions (acquisition of real property, disposal of real property, entering into or amending franchise agreements for operation of facilities, and issuing or refinancing bonds) be authorized by a 2/3 vote of the governing bodies of the Member Agencies in lieu of action solely by the Board.

Legal counsel for SBWMA noted that the transfer of power from the Board to the governing body of the Member Agencies leaves to the elected officials of each Member Agency the most important decisions with the greatest structural and/or financial implications.[6]
At the time the Restated Agreement was under consideration, Belmont suggested that elected officials serve on the Board. In addition, a member of the Board of Supervisors and a member of the state legislature have called for elected officials to comprise the Board. A 2008-2009 Grand Jury report on SBWMA recommended that elected officials comprise the Board. Most recently, Redwood City organized the Task Force to study the feasibility of a structure change for the Board.

There are many models for waste collection boards around the state. Some are composed of elected officials only, some of staff members only, and some are a combination. Most individuals interviewed by the Grand Jury thought the Board should be composed of all elected officials or all senior management staff. They thought a mixed Board would not work as well.

Advantages and Disadvantages of Elected Officials Serving on the Board

The Grand Jury learned during its interviews that elected officials believe their perspective on issues such as collection rates would be more like that of a citizen than the perspective of a professional administrator. Having elected officials on the Board may give the public a sense that there is more direct control over the waste management service. Elected officials may be more proactive regarding informing the public and, given that they may be more sensitive to public scrutiny, they may be more likely to make decisions of which constituents approve.

Elected officials often have other careers and are generally very busy. Their time available to devote to waste management matters could thus be more limited, a disadvantage. Elected officials also have limited and variable terms of office thereby disrupting the continuity of the Board. Interviewees stated that there is a steep learning curve for new Board members. Several

[6] San Carlos City manager's report to the city council, dated January 28, 2013

interviewees stated that elected officials might have outside pressure or influence from various groups in making their decisions. There also may be a need for more staff at SBWMA to assist elected official Board members, which might increase cost.

Advantages and Disadvantages of Staff Serving on the Board

Senior management staff provides professional management with experience in developing budgets, contracts, and long term planning. They generally have more time to devote to the duties of the Board because service on the Board is part of their "job description" and the time is anticipated and allocated. Many senior management staff members have served on the Board for several years and are very knowledgeable about SBWMA. Senior management staff has less pressure on it from outside influences. Senior management staff is more likely to make a sound business decision rather than a political one. Staff generally looks at the most efficient way to operate SBWMA

A possible disadvantage of senior management staff serving on the Board is inadequate communication between such staff and their governing councils. Interviews suggested that elected officials do not always have the information from the Board they feel they need. This is especially true in connection with setting collection rates.

Task Force Recommendation

The Daily Journal reported on May 2, 2013, that the Task Force had voted to recommend to the governing boards of the Member Agencies that the Restated Agreement be amended to change the composition of the Board from senior management staff to an elected official from each governing body.[7] The Task Force also recommended establishment of a technical advisory committee similar to that in place for the County Library joint powers authority.[8] Each of these governing bodies will discuss and vote on the recommendations. The approval of eight of the twelve Member Agencies is required to amend the Restated Agreement.

One member of the Task Force advised the Grand Jury that the reason for the recommended change was that elected officials are required to vote on rate increases predicated on a budget approved by the Board, not the governing boards of the Member Agencies. This Task Force member also stated that the Task Force was of the view that elected officials are more sensitive to "fees" than senior management staff. This Task Force member was, however, unaware that many Member Agencies were including undisclosed fees and charges in waste service bills.

While this argument has some merit, the Grand Jury believes better communication between the Board member and his/her Member Agency can address the concern that the Member Agency does not have sufficient oversight of the SBWMA budget. Further, this concern is outweighed by the enhanced expertise and reduced exposure to outside influences provided by a Board composed of senior management staff. Therefore, after considering the evidence, the Grand Jury

[7] http://archives.smdailyjournal.com/article_preview.php?id=1770056 (May 13, 2013).

[8] Interview with Task Force member.

finds no compelling reason to change the current SWBMA governance structure from only senior management staff to only elected officials.

FINDINGS

F1. One reason behind wanting to change the composition of the Board appears to stem from the public's concern over rate increases and service changes.

F2. The organizational structure of SBWMA is a complex issue that the public does not well understand.

F3. The rates and the process of setting them are difficult to understand because so many variables, such as added city fees, come into play.

F4. Customers would benefit from receiving itemized billing statements that show charges imposed by Recology and additional fees imposed by the relevant Member Agency.

F5. Elected officials already have sufficient influence in the decision-making process because the governing body of each Member Agency must approve major decisions such as contracts and rate increases.

F6. There is no demonstrable advantage to changing the Board composition from only senior management staff to only elected officials.

F7. A technical advisory committee would be useful to a Board composed solely of elected officials if the Restated Agreement is amended to change SBWMA's governance structure in this manner.

RECOMMENDATIONS

The 2012-2013 San Mateo County Civil Grand Jury recommends that, each ***Member Agency of SBWMA*** do the following:

R1. Disseminate more information to the public about SBWMA's operations, the role of its franchisees, and the rate setting process.

R2. Request that Recology prepare a detailed billing statement for its customers that shows all charges imposed by Recology and itemizes all fees charged by the Member Agency.

R3. Continue to appoint only senior management staff to the Board as stipulated in the 2005 Agreement.

R4. If the Restated Agreement is amended to provide for a Board composed solely of elected officials, then put in place a technical advisory committee consisting of staff with technical experience in waste management.

The Grand Jury recommends that the ***SBWMA Board*** do the following:

R5. Disseminate more information to the public about SBWMA's operations, the role of its franchisees, and the rate setting process through a variety of media.

REQUEST FOR RESPONSES

Pursuant to Penal Code Section 933.05, the Grand Jury requests the following to respond to the foregoing Findings and Recommendations referring in each instance to the number thereof:

- SBWMA Member Agencies (Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, City of San Mateo, San Mateo County, and West Bay Sanitary District)
- South Bayside Waste Management Authority Board of Directors

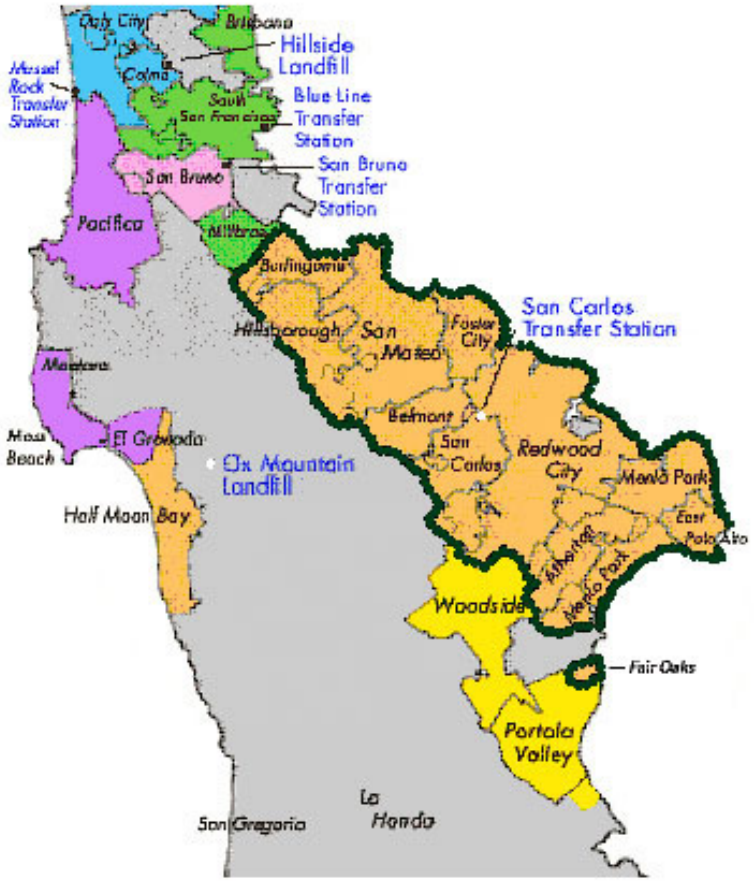
The governing bodies indicated above should be aware that the comment or response of the governing body must be conducted subject to the notice, agenda, and open meeting requirements of the Brown Act.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury.

This is an advanced copy of a Grand Jury report that will be publicly released on June 17, 2013. Penal Code section 933.05 (f) prohibits any officer, agency, department, or governing body of a public agency from disclosing any contents of the report prior to the public release of this report.

APPENDIX A

SBWMA Service Area



September 13, 2013

Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: RESPONSE TO GRAND JURY REPORT: "SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD - ELECTED OFFICIALS OR SENIOR MANAGEMENT STAFF"

Dear Judge Livermore:

The South Bayside Waste Management Authority (SBWMA) is in receipt of the Grand Jury's Report entitled, "South Bayside Waste Management Authority (SBWMA) Board-Elected Officials or Senior Management Staff". Pursuant to your June 17, 2013 directive to respond, the SBWMA Board held a public meeting on September 12, 2013, and approved this letter and the responses included herein.

The SBWMA Board's specific responses to the Grand Jury's "Findings" and "Recommendations" in the report are as follows:

FINDINGS

F1. One reason behind wanting to change the composition of the Board appears to stem from the public's concern over rate increases and service changes.

Response: Respondent agrees with this Finding.

The public's concern over rate increases has been conveyed by some of the members of the Blue Ribbon Task Force at their meetings and in quotes in newspaper articles. However, the new franchised collection services have been overwhelmingly well-received based on the findings of a statistically significant 2012 Residential Customer Satisfaction Survey. Based on the survey findings, a total of 88.2 percent of the

residents surveyed said they were “very satisfied” and “somewhat satisfied” overall with the CartSMART Recycle, Compost and Garbage collection services, while only 6.4 percent said they were “somewhat dissatisfied” or “very dissatisfied.”

The setting of rates by the SBWMA Member Agencies is a complex issue, of which many factors regularly contribute to the annual adjustments made to the rates charged to residents and businesses. It is important to note that the rates are annually set by each SBWMA Member Agency and therefore vary by jurisdiction. Issues that affect rates include, but are not limited to: the Franchise and other fees charged by each Member Agency, revenue fluctuations, disposal and processing costs, the type and frequency of services, number of commercial businesses in a Member Agency, number of households, the amount of time it takes to service the businesses and households, progressive rate structures, size of lots, number of compost carts allowed per resident with no additional fees, and legacy costs to pay off debt to Allied Waste, among others.

The new collection services franchise agreements with Recology San Mateo County provide the foundation for a more stable and predictable rate structure compared to the old franchise agreements with Allied Waste, as Recology’s compensation adjustments are based almost exclusively on indices (e.g., once the initial collective bargaining agreement labor adjustments are phased out, this significant cost component will also be fixed to CPI) as opposed to the cost-plus adjustments that occurred through the Allied Waste agreements.

It should also be pointed out that rate adjustments based on the new franchise contracts have decreased significantly when comparing 2013 against 2012 and 2012 vs. 2011. Five of twelve Member Agencies had no rate increases in 2013, and one Member Agency opted to increase rates even though it was not required. Starting in 2014, the compensation adjustment for Recology will be largely based on indices as the legacy collective bargaining agreement labor cost adjustments will be completely phased out. This should keep any Recology compensation adjustments at or below CPI.

F2. The organizational structure of SBWMA is a complex issue that the public does not well understand.

Response: Respondent partially agrees with this Finding.

The organizational structure itself is not complex, and is fairly standard for a special district in that it has a Board of Directors, an Executive Director and staff.

As the SBWMA is neither the franchised collection services provider nor a typical government entity like a city or county, though, it has been challenging to educate the public on the nuances of specifically what the SBMWA is and what it does as a public Agency.

For public outreach purposes, efforts have been made to uniquely brand or identify the Agency separately from Recology or the Shoreway facility operator South Bay

Recycling. However, significant spending would be required to properly measure and identify the level of public knowledge of what the SBWMA does and its unique roles and responsibilities versus the contractors it manages and then to develop an outreach plan to improve residents understanding.

F3. The rates and the process of setting them are difficult to understand because so many variables, such as added city fees, come into play.

Response: Respondent agrees with this Finding.

As stated in the second paragraph of the first Finding, the setting of rates by the SBWMA Member Agencies is a complex issue of which many factors regularly contribute to the annual adjustments.

F4. Customers would benefit from receiving itemized billing statements that show charges imposed by Recology and additional fees imposed by the relevant Member Agency.

Response: Respondent neither agrees nor disagrees with this Finding.

This is a decision that needs to be made independently by each Member Agency as they are each individually responsible for rate adjustments. While in general the SBWMA is certainly in favor of heightened transparency and educating the public about the cost components of the solid waste rates charged to customers, each Member Agency sets its rates, including any fees included in such rates. Therefore, the SBWMA has a limited role in the final setting of specific rates (e.g., by service level or service sector) as this is a decision solely made by the governing bodies of each individual Member Agency.

F5. Elected officials already have sufficient influence in the decision-making process because the governing body of each Member Agency must approve major decisions such as contracts and rate increases.

Response: Respondent disagrees with this Finding.

The revised Board governance enacted on July 24, 2013 now provides for elected officials on the Board of Directors. The change enhances the decision-making process as one elected official from each Member Agency is now directly involved in all major decisions approved by the JPA.

F6. There is no demonstrable advantage to changing the Board composition from only senior management staff to only elected officials.

Response: Respondent disagrees with this Finding.

Effective July 24, 2013 the SBWMA JPA Agreement was amended to change the composition of the Board of Directors from Member Agency staff to an elected official from each Member Agency.

F7. A technical advisory committee would be useful to a Board composed solely of elected officials if the Restated Agreement is amended to change SBWMA's governance structure in this manner.

Response: Respondent agrees with this Finding.

The current collection services franchise agreements with Recology between the company and each Member Agency, and the facility operations agreement between the SBWMA and South Bay Recycling (SBR) are both complex contracts and require in-depth insight, understanding and ongoing knowledge of the key contract provisions and the performance of the contractors.

The SBWMA also is a special district focused specifically on solid waste and recycling issues. Thus, it would make sense to retain and leverage the institutional knowledge of the previous Board Members in the form of a technical advisory committee.

On August 22, 2013 the new Board of Directors approved creation of a TAC.

RECOMMENDATIONS

R5. Disseminate more information to the public about SBWMA's operations, the role of its franchisees, and the rate setting process through a variety of media.

Response: The SBWMA, also known as RethinkWaste to the general public, made a major effort to inform the public on who the Agency was, its role, the rate setting process and overall education on the programs and services throughout the rollout of the new franchised collection services in late 2010 and 2011. The SBWMA took the lead in public education on the rollout of the new services and thus a cost effective opportunity was taken advantage of to increase awareness of RethinkWaste. This included numerous community meetings held in each Member Agency, staffing booths at community events to answer questions, as well as outreach materials through the form of bill inserts, mailers and advertisements. In addition, the Agency's website, Rethinkwaste.org, was updated to include this information and social media outreach was initiated through dedicated Facebook and Twitter sites.

In 2012, a dedicated section was added to the RethinkWaste.org website to specifically address residential rates. This includes the following:

- Introduction
- Frequently Asked Questions
- The Daily Journal Editorial

The above-referenced pages can be found at http://www.rethinkwaste.org/residents/residential-garbage-rates/introduction.

In addition, in January 2012, the SBWMA launched its School Groups and Public Tour programs at the Shoreway Environmental Center. The tours not only educate attendees on the programs and services, and what happens to the materials once they are collected, but also again on who the Agency is, its role and relationship with Recology, SBR and the Member Agency, as well as rates. Over 5,000 people toured the facility in 2012, and the SBWMA anticipates more will tour the facility in 2013.

Most recently, SBWMA Staff also developed Member Agency specific Snapshot Reports for 2012 that were provided to each Member Agency in April 2013. These snapshot reports provided information on how each Member Agency is doing related to the programs and services available to them, as well as service area wide information, public education and outreach efforts and future projects. Member Agencies were encouraged to share these reports with their communities and SBWMA Staff was available to present them at public meetings upon request.

On August 19, 2013 the SBWMA launched a redesigned website to make it more convenient for the general public to use and learn about the programs, services and the Agency.

In addition, a mobile application is also being developed for a launch late summer/early fall that will further help reach the general public and tech savvy individuals who rely more and more on their smart phones for information.

Other activities planned for fiscal year 2014 include:

- The SBWMA will be developing a website template on solid waste rates that will be shared with each Member Agency.

- The SBWMA Staff is working with the City of Redwood City on developing a pictorial diagram that helps tell the full story of services, rates and the roles of the various entities involved. It is anticipated that this will be ready later this summer/early fall. The SBWMA will work with the Member Agencies on how to further develop and use this new tool over the next fiscal year.

- The SBWMA will be reviewing its site signage at the Shoreway facility to identify new ways to convey operational messages to the public including the fact that the facility is publicly owned.

The SBWMA will continue to look for new and ongoing opportunities to continue educating the public throughout 2013 and beyond about its operations, the role of its franchisees and the rate setting process through a variety of media, including websites, social media, community events, mailers and other outreach opportunities.
In addition, the SBWMA will work closely with the Member Agencies, Recology and SBR in these efforts.

COMMENTS

The SBWMA would like to thank the Grand Jury for its thoughtful and careful report on all the issues it reviewed. We would like to respectfully point out a few clarifications regarding statements made in the report as follows:

SUMMARY SECTION OF REPORT

- The report states the Shoreway facility was built at a cost of approximately $17 million. While the Shoreway MRF building cost approximately $17 million there were approximately $29 million in additional capital improvements including but not limited to the new single stream processing equipment, expanded Transfer Station building, new traffic lanes and scales, new public recycling center, etc.
- The report references the "SBWMA's waste hauler" but it should be noted that the individual Member Agencies hold contracts with a waste hauler, not the SBWMA.

BACKGROUND SECTION OF REPORT

- The franchise agreements between the Member Agencies and BFI expired on December 31, 2010 and not January 1, 2011.
- The report references the "SBWMA's new franchise waste hauler" but it should be noted that the individual Member Agencies hold contracts with a waste hauler, not the SBWMA.

DISCUSSION SECTION OF REPORT

- The report references the State diversion requirements increasing to 75% by 2017. This is actually a statewide goal of 75% by 2020, and not a local mandate on cities and counties at this time.
- A statement is made that the SBWMA's administrative operations were initially performed by City of San Carlos staff which is partially true. Such operations were also performed by contract staff and consultants.
- In September 2006, the SBWMA hired its first Executive Director and not "a day to day operations manager."
- In 2000 the SBWMA, not its Member Agencies, issued revenue bonds.
- A statement is made that Allied Waste "had a cost plus contract with the SBWMA" which is true as it related to operations of the Shoreway facility only. Allied Waste, formerly BFI, also had separate cost plus contracts (i.e., franchise agreements) with each Member Agency for collection services.
- The report states incorrectly that, "Another cause for increasing rates is that the Ox Mountain dumping facility increased its rates because less waste was being delivered to it as a result of increases in recycling." Since January 1, 2005, the SBWMA has had a disposal agreement with Ox Mountain based on a fixed price per ton which is annually adjusted by 80% of CPI excepting any pass through costs such as government fees. Another beneficial provision is that the SBWMA has a "most favored nations" status, which means that if a lower rate is charged by Allied to another jurisdiction, this lower rate would apply to the SBWMA. This

agreement expires on December 31, 2019. However, San Mateo County increased its fees, charged as a pass-through by the landfill, in July 2010.

Please let us know if there are any further matters for response or clarification.

Sincerely,

_____
Chairperson of the Board of Directors

DRAFT

Rethink waste
South Bayside Waste Management Authority
A Public Agency

STAFF REPORT

To:	SBWMA Board Members
From:	Cliff Feldman, Recycling Programs Manager
Date:	September 12, 2013 Board of Director's Meeting
RE:	Staff Update on Recology Customer Service Call Center Monitoring Results

Recommendation

This Staff Report is for informational purposes only and no action is requested of the Board of Directors.

Analysis

The recent Recology customer service call center monitoring work performed by Cascadia Consulting was done in December 2012 and March 2013. The results of this auditing work are provided in the project report as attached (see Attachment A). The project specifically focused on how Recology's customer service representatives (CSR) interpreted telephone calls received from customers and logged them into the company's system. The primary rationale to conduct this type of auditing or monitoring is because numerous liquidated damages and performance incentives/disincentives are related to how calls are coded and hence self-reported by Recology.

The call monitoring entailed Cascadia staff calling the customer service center and posing as a customer with a real issue. These "dummy calls" (commonly accepted industry term) are designed to mirror the actual CSR's experience with a customer. The results or documentation of the call by the CSR is then checked to determine if it is accurate and coded properly.

For a second year in a row Recology fell short of operating its call center in accordance with the standards prescribed in the Franchise Agreement(s). Therefore, the financial impact of accurately documenting the types of calls received related to lapses of service was under reported. The prior year's audit revealed the same problem and the company did implement recommendations to address this problem. However, there are still deficiencies with how the company consistently interprets and documents calls from customers. These deficiencies were primarily due to the company's customer service representatives (CSR) inconsistently or erroneously coding service transactions based on the actual issue conveyed by the customer.

A similar scope of work was performed for 2011 by Cascadia who was working as a subcontractor to Hilton, Farnkopf & Hobson, LLC (HF&H). For 2012, Cascadia was provided a separate contract from the audit conducted by HF&H (*please refer to the staff report for agenda item 3D*).

Results

In 2011, approximately 10% of the calls monitored were coded accurately. For 2012, the accuracy rate was 61% and for the calls made in March 2013, approximately 41% of the calls were coded accurately. The CSR's erroneous interpretation of the information or issue conveyed by the customer is one way a call can be coded improperly and another is when a CSR fails to document the call altogether.

Given the small sample size of calls monitored an extrapolation methodology to determine revised data for determining Liquidated Damages for calendar year 2012 was applied. This extrapolation approach is not specifically prescribed in the Franchise Agreements. Recology stated in correspondence last year that the use of this approach should not be considered or construed in any way as precedent setting to determine future payments for Liquidated Damages and Performance Incentives/Disincentives. It should be noted that the extrapolation approach was also used in the past for the Allied Waste franchise agreements in circumstances where no other methodology was suitable for capturing data required for contract compliance.

The extrapolation methodology results were shared with Recology and discussed at length. This auditing work performed by Cascadia resulted in an additional increase in Liquidated Damages due to the Member Agencies and hence a reduction in the Performance Incentives payment due to Recology for 2012 (to be applied to the 2014 rates). Recology concurred with the results. The result of the extrapolation methodology used by HF&H (*refer to the staff report for agenda item 3D*) to recalculate Liquidated Damages and Performance Incentive/Disincentive payments are included in Table A in the staff report for agenda item 3D.

Background

The Member Agencies Collection Services Franchise Agreements with Recology prescribe numerous performance standards and also require the company to compile information and submit monthly, quarterly and annual reports. The information and data contained in these reports is substantially self-reported by the company. For example, all of the Performance Incentives and Disincentives (Attachment I of the Franchise Agreements) with the exception of disincentives related to contamination are self reported by Recology. In addition, the Liquidated Damages (Attachment J of the Franchise Agreements) events are also self-reported by the company.

The general rationale for this project was to test the accuracy of the CSR's coding customer calls given the numerous associated performance standards and metrics that are self-reported by the company. Thus, the auditing work was designed to reveal how well Recology's customer service call center documented calls from customers.

Fiscal Impact

The fiscal impact results in revisions to the Liquidated Damages and Performance Incentive and Disincentive payments calculated by Recology in its 2012 Annual Report (and applied to its 2014 Compensation Application). The audit results in increased Liquidated Damages owed by Recology to the Member Agencies. These additional Liquidated Damages have been applied to partially offset the Performance Incentives due to Recology in their 2014 Compensation Application. The Cascadia call monitoring findings resulted in increasing Liquidated Damages due to the Member Agencies by $4,300.

Attachments:

Attachment A – RethinkWaste Follow Up Customer Service "Dummy Calls" 2012-2013 (Cascadia Consulting)

RethinkWaste Follow Up Customer Service Dummy Calls 2012-2013

Cascadia Consulting Group's report to the South Bayside Waste Management Authority (SBWMA)

July 2013

Cascadia Consulting Group, Inc.
84 W. Santa Clara St, Suite 888
San Jose, CA 95113
www.cascadiaconsulting.com

Introduction and Overview

In 2011, the South Bayside Waste Management Authority (SBWMA) commissioned an audit of Recology San Mateo County's (Recology) reports, systems and operations. The intent of the audit was in-part to gauge Recology's adherence to the standards and goals put forth in their Collection Services Franchise Agreement(s). As part of this audit, Cascadia evaluated the effectiveness of Recology's customer service operations by making dummy calls to test the accuracy of reason codes used for complaints. A "dummy call" is a call to the company's customer service center whereby the caller poses as a customer. The actions of the customer service representative (CSR) are then evaluated to determine if the appropriate complaint-recording protocol was followed.

The dummy calls addressed complaints that Recology's customer service department rarely receive, but do in fact qualify for liquidated damage or disincentive payments under the Collection Services Franchise Agreement(s). The results of the 2011 dummy calls and recommendations for improvement were included in the 2012 Collection Services and Facility Operations Auditing Project report prepared by Hilton, Farnkopf and Hobson LLC.

Based on the results and recommendations, the SBWMA requested that Cascadia perform second and third rounds of dummy calls in December 2012 and April 2013 to identify changes to and progress in Recology's customer service call coding procedure. The results of these calls are presented in this report.

2012 Methodology and Results

Cascadia staff performed the first set of additional dummy calls during the second week of December 2012. The approach, results, and recommendations for future calls are described in the following pages.

Approach

Cascadia staff performed dummy calls using updated information provided by Recology from forty-six current accounts. Forty of these were pre-existing accounts used by Cascadia in 2011, and six additional accounts were randomly selected to further test the missed pick up calls. The dummy calls were performed the same way as in the 2012 Collection Services and Facility Operations Auditing Project report, with the exception of the "missed collection" calls.

The "Missed P/U Initial Complaint" calls can potentially be coded as one of four reason codes, depending on other information the CSR had about the driver's progress on his route. However, only the "32014" reason code has any liquidated damage or disincentive payments associated with it. In the 2011 study, many incorrect coding for the "Missed P/U Initial Complaint" (reason code 32014) were related to the CSR's knowledge of whether the driver had checked in after finishing the route in question or if he/she was still out on the route. In 2011, Cascadia staff did not have real-time access to Recology's customer service database and were thereby unable to review the truck's on-board system for information about the driver's progress on the route. In order to ensure Cascadia staff had the most accurate route information and to recognize whether or not the call was coded correctly, Cascadia

placed a staff member in the Recology offices during the time other Cascadia staff made all twelve "Missed P/U Initial Complaint" dummy calls. The Cascadia staff member at Recology listened in to each call while reviewing the on-board system to test the CSR's coding accuracy for the twelve "Missed P/U Initial Complaint" calls.

Results of Study

Figure 1 provides the results of the 2012 dummy calls and documents the number of calls, the reason code that was supposed to be used, the reason code actually used, and whether or not the action taken was appropriate.

Figure 1: 2012 Calls

Reason Code Expected to be Used		Number of Calls	Follow-up results – coded correctly		Reason Codes Used by CSRs		
Reason Code	Description		Yes	No	Quantity	Reason Code	Description
31052	Complaint re: time of pick up	7	6	1	2	31084	Excessive Noise
					3	31093	Unauthorized Collection Hours
					1	31052	Complaint re: time of pick up
					1		No Ticket Generated
31084	Excessive Noise	6	4	2	3	31084	Excessive Noise
					2	31053	Complaint Re: Driver
					1	31040	General Inquiry
31086	Property Damage	5	4	1	4	31086	Property Damage
					1	31098	Cust Rpts Mess Left After Service
31098	Customer reports mess left after service	5	5	0	5	31098	Customer reports mess left after service
31116	Customer reports vehicle fluid spill	6	4	2	1	31098	Customer reports mess left after service
					1	31039	Operations Attention
					4	31116	Customer reports vehicle fluid spill
32014	Missed Pick Up – Initial Complaint	12	11	1	1	31082	Reminder - Service Today
					9	32014	Missed Pick Up – Initial Complaint
					2	31099	Courtesy Return
34008	Deliver, Fell in Hopper	5	5	0	0	34008	Deliver, Fell in Hopper
					5	34000	Deliver (new)
	TOTAL	**46**	**39**	**7**	**46**		
	PERCENT	**100.0%**	**84.8%**	**15.2%**			

Results show that out of the 46 dummy calls made, the Recology Customer Service Staff coded 39 of the calls correctly, which equates to a 84.8% level of accuracy.

Recommendations for Improvements to Study Protocol

Cascadia staff provided the following recommendations to improve the study protocol:

- Recology to provide a list of all the Customer Service Representative's (CSR) names and provide information about CSR shift changes. This would help Cascadia staff make calls at different times of the day to avoid talking to the same CSR multiple times.
- Recology CSR Supervisor to email Cascadia staff to confirm that they received their follow-up email and that the customer service ticket was cancelled.
- Whenever possible, Cascadia to indicate on the tracking spreadsheet if the property is multi-family or single-family to be prepared in case the CSR asks.
- Cascadia to re-word the "Complaint Re Time of Pick Up" script. Trucks may begin servicing as early as 6am.
- Cascadia to put a system in place to double check addresses on the spreadsheet.
- Cascadia to brainstorm ways to avoid getting identified as a dummy call by contradicting the on-board tracking system data that CSRs reference during calls.
- Cascadia to allow for several weeks to do the calls in order to avoid bringing up the same complaint with any one CSR.

2013 Methodology and Results

Cascadia staff performed the second set of additional dummy calls between April and May 2013. The approach, results, and recommendations for future calls are described in the following pages.

Approach

Cascadia staff performed dummy calls for forty-six Recology accounts using the same protocol as in 2011, with the exception that Cascadia did not use the same Recology accounts as used in 2011 and 2012. For this set of calls, RethinkWaste provided secured access to their AS400 customer service database to allow Cascadia staff to view live account information. This access let Cascadia select accounts while making calls, thereby ensuring that the Recology customer service staff was not alerted prior to the calls being made. Additionally, Cascadia made all "Missed P/U Initial Complaint" calls in the afternoon or on the day after the scheduled service to confirm all missed calls were considered actual missed pick-ups and that monitoring the on-board system was not necessary.

Results of Study

Figure 2 provides the results of the 2013 dummy calls and shows the number of calls, the reason code that was supposed to be used, the reason code actually used, and whether or not the action taken was appropriate.

Figure 2: 2013 Calls

Reason Code Expected to be Used		Number of Calls	Follow-up results – coded correctly		Reason Codes Used by CSRs		
Reason Code	Description		Yes	No	Quantity	Reason Code	Description
31052 & 31093	Complaint re: time of pick up & Unauthorized Hours	7	0	7	2	31040	General Inquiry
					2	31039	Operations Attention
					0	31052	Complaint re: time of pick up
					0	31093	Unauthorized Hours
					3		No Ticket Generated
31084	Excessive Noise	6	2	4	1	31084	Excessive Noise
					1	31053	Complaint Re: Driver
					3	31039	Operations Attention
					1		No Ticket Generated
31086	Property Damage	5	4	1	4	31086	Property Damage
					1	31082	Reminder - Service Today
31098	Customer reports mess left after service	5	1	4	1	31098	Customer reports mess left after service
					2	31039	Operations Attention
					2	31082	Reminder - Service Today
31116	Customer reports vehicle fluid spill	6	5	1	1	31098	Customer reports mess left after service
					4	31116	Customer reports vehicle fluid spill
					1		No Ticket Generated
32014	Missed Pick Up – Initial Complaint	12	8	4	1	31082	Reminder - Service Today
					8	32014	Missed Pick Up – Initial Complaint
					3	31099	Courtesy Return
34008	Deliver, Fell in Hopper	5	5	0	1	34008	Deliver, Fell in Hopper
					4	34000	Deliver (new)
	TOTAL	**46**	**25**	**21**	**46**		
	PERCENT	**100.0%**	**54.3%**	**45.7%**			

Out of the 46 dummy calls completed, Recology Customer Service staff coded 25 of the calls correctly (a 54.3% level of accuracy).

Recommendations for Improvements to Study Protocol

Cascadia staff provided the following recommendations to improve the study protocol:

- Cascadia to block caller ID prior to calling Recology.
- Recology to make route supervisors aware when calls are happening. Cascadia staff received several follow-up calls from Recology route supervisors regarding the dummy call complaint and in some cases route supervisors went to the site.
- Cascadia to consider how to address complaint issues revolving around pickup times. Because CSRs can see the exact time a truck picks up, it becomes difficult to justify the dummy call claiming that pick-up was early without being identified as a false customer.

Summary Comparison of Results

Figure 3 provides the results for all three sets of dummy calls made and shows the number of calls, the reason code that was supposed to be used, the reason code actually used, and whether or not the action taken was appropriate.

Figure 3: 2011, 2012 and 2013 Calls

Reason Code Expected to be Used		Number of Calls			Follow-up results – coded correctly						Reason Codes Used by CSRs				
					Yes			No			Quantity				
Reason Code #'s	Description	2011	Dec-12	Mar-13	2011	Dec-12	Mar-13	2011	Dec-12	Mar-13	2011	Dec-12	Mar-13	Reason Code #'s	Description
31052 & 31093	Complaint Re: Time of Pick Up & Unauthorized Hours	7	7	7	0	6	0	7	1	7	4	1	3		No Ticket Generated
											1	0	0	31041	Garbage Inquiry
											1	0	2	31040	Service Inquiry
											1	0	0	31099	Disputed Serv -1 Time Return
											0	2	0	31084	Excessive Noise
											0	0	2	31039	Operations Attention
											0	3	0	31093	Unauthorized Collection Hours
											0	1	0	31052	Complaint re: time of pick up
31084	Excessive Noise	6	6	6	0	4	2	6	2	4	2	0	1		No Ticket Generated
											1	0	3	31039	Operations Attention
											1	0	0	32015	Immediate Response Required
											1	0	0	31052	Complaint Time Picked Up
											1	0	0	31110	1st Service Reminder
											0	3	1	31084	Excessive Noise
											0	2	1	31053	Complaint Re: Driver
											0	1	0	31040	General Inquiry
31086	Property Damage	5	5	5	2	4	4	3	1	1	3	0	0	31039	Operations Attention
											2	4	4	31086	Property Damage
											0	0	1	31082	Reminder - Service Today
											0	1	0	31098	Cust Rpts Mess Left After Service
31098	CustomerReports Mess Left After Service	5	5	5	0	5	1	5	0	4	1	0	0		No Ticket Generated
											1	0	0	31041	Garbage Inquiry
											1	0	2	31039	Operations Attention
											0	0	2	31082	Reminder - Service Today
											2	0	0	31040	Service Inquiry
											0	5	1	31098	Customer reports mess left after service
31116	Customer Reports Vehicle Fluid Spill	6	6	6	1	4	5	5	2	1	1	0	1		No Ticket Generated
											1	4	4	31116	Account Report Vehicle Fluid Spill
											1	0	0	31099	Disputed Serv -1 Time Return
											2	1	1	31039	Operations Attention
											1	0	0	31086	Property Damage
											0	1	0	31098	Customer reports mess left after service
32014	Missed Pick UP – Initial Complaint	6	12	12	0	11	8	6	1	4	2	0	0	31110	1st Service Reminder
											3	2	3	31099	Disputed Serv -1 Time Return
											1	0	0	31075	Already on RS Schedule
											0	1	1	31082	Reminder - Service Today
											0	9	8	32014	Missed Pick Up – Initial Complaint
34008	Deliver, Fell in Hopper	5	5	5	1	5	5	4	0	0	1	0	0	34100	Missing Cont / Re-Deliver
											4	0	1	34008	Deliver, Fell in Hopper
											0	5	4	34000	Deliver
TOTAL		40	46	46	4	39	25	36	7	21	40	46	46		
PERCENT					10.0%	84.8%	54.3%	90.0%	15.2%	45.7%					

Overall Results

In summary, the results of all three sets of dummy calls show a fluctuation in the level of accuracy. While there was a large improvement in accurate coding between 2011 and 2012, the results also show a slight decrease in 2013.

- In 2011, 4 out of 40 calls were coded properly (10.0% accurate).
- In 2012, 39 out of 46 calls were coded properly (84.8% accurate).
- In 2013, 25 out of 46 calls were coded properly (54.3% accurate).

There were two reason codes that CSRs failed to code correctly on a regular basis: "Excessive Noise" and "Unauthorized Hours." More information on the specific reason codes and the number of times used correctly by Recology's CSRs is detailed below.

No Tickets Generated

There were a number of calls that were not documented by the CSRs on the customer's accounts. According to Recology's Customer Service Manager, every phone call should receive a ticket to document a customers' call, regardless of the outcome or action. There were four reason codes that CSRs did not always generate a ticket: "Complaint re: Time of Pick Up", "Excessive Noise," "Customer Reported Mess Left After Service," and "Customer Reports Vehicle Fluid Spilled." Out of 132 calls made over the three sets of dummy calls, 14 did not receive a ticket on the account: 8 calls in 2011, 1 in 2012, and 5 in 2013.

"Unauthorized Hours" Reason Code

Use of the "Unauthorized Hours" reason code and the "Complaint Re: Time of Pick Up" were measured and inconsistencies in coding were observed. These inconsistencies can in part be attributed to the close nature of complaints that can be documented with these reason codes. However, the "Unauthorized Hours" reason code was not used properly on all 3 calls of this type made in the most recent set of calls in 2013.

"Excessive Noise" Reason Code

This reason code was used appropriately for 6 out of the 18 calls made over the three sets of dummy calls. There were 3 correct codes in 2012 and 1 in 2013.

"Property Damage" Reason Code

This reason code was used appropriately for 10 out of the 15 calls made over the three sets of dummy calls. There were 4 correct codes in 2011 and 1 in both 2012 and 2013.

"Customer Reports Mess Left After Service" Reason Code

This reason code was used appropriately for 6 out of the 18 calls made over the three sets of dummy calls. There were 5 correct codes in 2012 and 1 in 2013.

"Customer Reports Vehicle Fluid Spill" Reason Code
This reason code was used appropriately for 10 out of the 18 calls made over the three sets of dummy calls. There was 1 correct code in 2011 and 4 in both 2012 and 2013.

"Missed Pick-Up Initial Complaint" Reason Code
This reason code was used appropriately for 19 out of the 30 calls made over the three sets of dummy calls. There were 11 correct codes in 2012 and 8 in 2013.

"Deliver Fell In Hopper" Reason Code
This reason code was used appropriately for 11 out of the 15 calls made over the three sets of dummy calls. There was one correct code used in 2011, and 5 in both 2012 and 2013.

STAFF REPORT

To:	SBWMA Board Members
From:	Cliff Feldman, Recycling Programs Manager
Date:	September 12, 2013 Board of Director's Meeting
Subject:	Staff Update on Findings from Review of Collection Services and Facility Operations Reports, Tonnage Data and Customer Service Systems Audits

Recommendation

This Staff Report is for informational purposes only and no action is requested of the Board of Directors.

Analysis

Recology

The audit work performed by Hilton, Farnkopf and Hobson Consulting, LLC (HF&H) commenced in March 2013 and was concluded with submittal of the project report attached as Attachment A. HF&H identified contract compliant and non-compliant aspects of both Recology San Mateo County (Recology) and South Bay Recycling (SBR) operations and reporting for calendar year 2012. The results of this auditing work are summarized in the recommendations consolidated in Section 5 of the report. While there were few deficiencies in the performance of both contractors, for a second year in a row Recology fell short of operating its call center in accordance with the standards prescribed in the Franchise Agreement(s) and thus under-reported the financial impact of quantifying the types of calls received related to lapses of service.

Call Center Operations

The HF&H audit identified that several metrics driven reporting categories per the Franchise Agreements used to assess Liquidated Damages were under reported. The prior year's audit revealed the same problem and the company did implement recommendations to address this problem. However, there are still deficiencies with how the company distinguishes between the type of customer call for service and the accurate documentation of these calls. These discrepancies were primarily due to the company's customer service representatives (CSR) inconsistently or erroneously coding service transactions.

It is important to note that per the prior year's HF&H Audit recommendations the company did make strides in revising the service codes to simplify them and to tie the applicable codes to specifically reportable Liquidated Damages events.

Due to the complexities presented by the large number of coding categories, resulting volume of service information, and errors made by CSRs (i.e., miscoding of customer call information) as identified per the HF&H audit, HF&H applied an extrapolation methodology to determine revised data for determining Liquidated Damages for calendar year 2012. This extrapolation approach is not specifically prescribed in the Franchise Agreements. The company stated in correspondence last year that the use of this approach should not be considered or

construed in any way as precedent setting to determine future payments for Liquidated Damages and Performance Incentives/Disincentives. It should be noted that the extrapolation approach was also used in the past for the Allied Waste franchise agreements in circumstances where no other methodology was suitable for capturing data required for contract compliance.

The extrapolation methodology results were shared with Recology and at their request, the company was also given the original source data from HF&H to determine if they agreed with the analysis. Recology confirmed their concurrence with the HF&H analysis. In addition, related auditing work of the customer service call center conducted by Cascadia Consulting, also resulted in identifying deficiencies with how customer calls are coded or not logged into the company's system at all (refer to the staff report for agenda item 3C). This auditing work performed by Cascadia resulted in an additional increase in Liquidated Damages due to the Member Agencies and hence a reduction in the Performance Incentives payment due to Recology for 2012 (to be applied to the 2014 rates).

Therefore, the final figures based on the extrapolation methodology used by HF&H to recalculate Liquidated Damages and Performance Incentive/Disincentive payments are provided in Table A on the following page (also included in the HF&H Report; Attachment A - Figures 3-10). Table A also provides the revised Liquidated Damages and performance Incentives/Disincentives net of Liquidated Damages payments already made by Recology to the Member Agencies.

Therefore, the "Revised Total" figures contained in Table A have been applied to the Recology 2014 Compensation Application and the additional Liquidated Damages payments owed to the Member Agencies were used to partially offset the Performance Incentives owed to Recology for 2012 that are included in the 2014 rates. The mechanism to accomplish this is to provide relief to the company from issuing another round of checks directly to the Member Agencies as is prescribed in the Franchise Agreements, and instead use these Liquidated Damages payments to partially offset the Performance Incentive payment amounts included in Recology's 2014 Compensation Application. Therefore, the result will be a reduction in the net balance of the Performance Incentive payments calculated for 2012, which primarily is a result of the Overall Diversion Incentive payment due.

Please note that the 2012-2103 contract negotiations with Recology which led to administrative changes and amendments to the Recology Franchise Agreements, in part resulted in reducing the net performance incentives for 2012 that are due to the company in its 2014 Compensation Application. Recology states in its Application that it will honor the reduction in incentive payments from Member Agencies whose governing bodies approve the related contract amendments prior to setting rates for 2014. Given some Agencies may not set or change rates for 2014, Staff has confirmed with Recology the deadline to adopt these changes to the Franchise Agreements is January 1, 2014. Attachment B provides a table showing the status of the Member Agencies approving these contractual changes.

A handful of other operational, systems related and reporting findings and recommendations were also included in the HF&H audit report. The company has agreed to address the remaining recommendations of the audit findings and SBWMA Staff and Recology plan to meet and confer about implementing these recommendations. Staff will return to the Board in 60 days with an update on the company's progress on the recommendations.

SBR
The discrepancies in reporting identified for 2011 have been corrected by the company and the audit did not find any material mathematical inaccuracies in the reporting for 2012.

Table A

Column	A	B	C	D	E	F
MEMBER AGENCY	**Unadjusted Total Performance Incentives due to Recology per Recology 2012 Annual Report** (ties to Fig. 3-9)	Initial Missed Pickup Performance Incentives (ties to Fig. 3-9)	90 Second Maximum Hold Time Disincentives (ties to Fig. 3-9)	**Adjusted Total Performance Incentives and Disincentives due to Recology per Contract Negotiations**	Additional Liquidated Damages Owed to the Member Agencies (per the HF&H[1] and Cascadia[2] Audits)	Total **Performance Incentives** Payments Due to Recology
Atherton	($9,959)	($3,300)	$316	($6,975)	$111	($6,864)
Belmont	($35,716)	($14,950)	$984	($21,750)	$1,126	($20,625)
Burlingame	($71,985)	($12,550)	$2,804	($62,239)	$2,457	($59,783)
East Palo Alto	($38,503)	($9,300)	$1,377	($30,580)	$1,574	($29,006)
Foster City	($47,290)	($15,850)	$1,480	($32,920)	$1,192	($31,728)
Hillsborough	($14,176)	($5,750)	$401	($8,827)	$359	($8,468)
Menlo Park	($63,225)	($16,850)	$2,192	($48,567)	$2,506	($46,060)
North Fair Oaks	($18,019)	($5,000)	$613	($13,632)	$701	($12,932)
Redwood City	($131,452)	($34,900)	$4,563	($101,115)	$4,718	($96,397)
San Carlos	($51,738)	($16,500)	$1,672	($36,910)	$512	($36,398)
San Mateo	($152,660)	($43,200)	$5,172	($114,632)	$4,915	($109,717)
San Mateo County	($21,188)	($10,900)	$491	($10,779)	$562	($10,217)
West Bay	($8,904)	($4,900)	$191	($4,195)	$218	($3,977)
TOTAL	**($664,815)**	($193,950)	$22,256	($493,121)	$20,950	($472,171)

Column **A** reflects the unadjusted total Performance Incentives and Disincentives reported by Recology in its 2012 Annual Report.
Column **B** reflects Recology's calculation of the Initial Missed Pickup Performance Incentive payments in its 2012 Annual Report.
Column **C** reflects Recology's calculation of the 90 Second Maximum Hold Time Performance Disincentive payments in its 2012 Annual Report.
Column **D** is the total Performance Incentive payment due to Recology for 2012 after being adjusted to omit the "Initial Missed Pickups" and "90 Second Maximum Hold Time" Performance Incentive/Disincentives.
Column **E** reflects the net additional Liquidated Damages owed by Recology to the Member Agencies after deducting the Liquidated Damages payments made directly to various Member Agencies.
Column **F** is the total Performance Incentives Payments due to Recology after deducting the additional Liquidated Damages calculated per the HF&H and Cascadia audits.

[1] Per the audit results of HF&H, the additional Liquidated Damages totalled $16,650.
[2] Per the audit results of Cascadia Consulting, the additional Liquidated Damages totalled $4,300.
[1, 2] Recology agreed with the results of both the HF&H and Cascadia Consulting audits.

Background

The Member Agencies Collection Services Franchise Agreements with Recology prescribe numerous performance standards and also require the company to compile information and submit monthly, quarterly and annual reports. The information and data contained in these reports is substantially self-reported by the company. For example, all of the Performance Incentives and Disincentives (Attachment I of the Franchise Agreements) with the exception of disincentives related to contamination are self reported by Recology. In addition, the Liquidated Damages (Attachment J of the Franchise Agreements) events are also self-reported by the company. The Shoreway Facility Operations Agreement with SBR requires the company to accurately record and report on tonnage.

Staff issued the Request for Proposals (RFP) for Collection Services and Facility Operations Contractor Data, Records, Systems and Reports Auditing on May 17, 2011 and received proposals from three consultant firms. After evaluating the proposals, conducting interviews and following up with pertinent references, on July 28, 2011, the Board approved staff's recommendation to contract with HF&H to perform this work in FY12 for calendar year

2011. On March 28, 2013 the SBWMA Board approved a contract with HF&H to perform this audit again in FY13 for calendar year 2012.

To summarize the scope of work, the project entailed a thorough auditing of both Recology and SBR's data compilation, management, storage and reporting. The audit included assessing Recology's call center functions to ensure the accuracy of transcribing and reporting information, complaints and requests for service from customers. The scope of auditing SBR's operations was limited to the scale house operations (i.e., tonnage reporting) and reporting of commodity revenues.

The general rationale for this project was to conduct an audit to ensure the accuracy of tonnage reporting and since Recology's compliance with numerous performance standards and metrics are self-reported by the company. Thus, the auditing work reveals how well both Recology and SBR obtained, compiled and reported data to the Member Agencies per the requirements prescribed in the Franchise Agreement(s) and Shoreway Facility Operations Agreement, respectively. In addition to the contract with HF&H, the auditing work involved the limited scope services of another consultant, Cascadia Consulting, which focused specifically on assessing Recology's customer service call center performance (please refer to the staff report for agenda item 3C).

Fiscal Impact

The fiscal impact results in revisions to the Liquidated Damages and Performance Incentive and Disincentive payments calculated by Recology in its 2012 Annual Report (and applied to its 2014 Compensation Application). The audit results in increased Liquidated Damages owed by Recology to the Member Agencies. These additional Liquidated Damages have been applied to partially offset the Performance Incentives due to the company in the Recology 2014 Compensation Application. The HF&H audit findings result in the increasing Liquidated Damages due to the Member Agencies by $16,650 (whereas the Cascadia audit results in an additional $4,300), which in turn reduces the calculated performance incentives owed to Recology for 2012 from $493,121 to $476,471 (or to $472,121 if the Cascadia audit results are included).

The cost for HF&H to conduct this audit was $47,030 for FY13 and $70,000 for FY12. The HF&H audits have resulted in additional payments to the Member Agencies by Recology of $16,650 for calendar year 2013 and $109,445 for calendar year 2012.

Attachments:

Attachment A – HF&H Review of Recology's and SBR's 2012 Annual Reports Auditing Project Report
Attachment B – Status of Member Agencies Approving the Recology Franchise Agreement Changes

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Review of Recology's and SBR's 2012 Annual Reports

August 13, 2013

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August 23, 2013

Mr. Cliff Feldman
Recycling Programs Manager
South Bayside Waste Management SBWMA
City of San Carlos
610 Elm Street
San Carlos, CA 94070

Subject: Review of Recology's and SBR's 2012 Annual Reports

Reference Number: S2961

Dear Mr. Feldman:

This report documents HF&H Consultants, LLC's (HF&H) findings and recommendations to the South Bayside Waste Management SBWMA (SBWMA) from our review and testing of the legitimacy and accuracy of the information contained in the 2012 Annual Reports issued by both Recology of San Mateo (Recology) and South Bay Recycling (SBR), collectively "Contractors".

* * * *

HF&H appreciates the assistance provided by Recology and SBR management and staff during our review and the direction and assistance received from the SBWMA. Should you have any questions, please call me at 925/977-6957.

Very truly yours,
HF&H CONSULTANTS, LLC

Richard J. Simonson, CMC
Vice President

cc: HF&H Client Files

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SECTION 1: INTRODUCTION

1.1 Background

The South Bayside Waste Management SBWMA (SBWMA) developed a model franchise agreement that each of its Member Agencies used as their own franchise agreement with Recology San Mateo County (Recology) for recyclable materials, organic materials, and solid waste collection services. In addition, the SBWMA executed an operating agreement with South Bay Recycling (SBR) to operate the SBWMA-owned Shoreway Environmental Center (Shoreway Facility) in the City of San Carlos.

Article 9 of the Recology agreements establishes monthly, quarterly, and annual reporting requirements, which include but is not limited to:

- Tonnage information for each Member Agency by material type (e.g., solid waste, recyclable materials, organic materials, etc.) and by service sector (e.g., residential, commercial, multi-family dwelling, Member Agency facility, etc.).
- Customer service calls received for each Member Agency by inquiry/request/complaint type (e.g., missed pick-up, excessive noise, property damage, request for a bulky item collection, information request, etc.).
- Call center phone statistics (e.g., number of calls received, average hold time, percentage of calls answered in 90 seconds, etc.).
- A liquidated damages report which summarizes the number of complaints in each complaint category and computes the amount (if any) of liquidated damages accrued (for each instance of non-compliance with the standards established in Attachment J of the agreements).
- The calculation of performance incentive and disincentive payments resulting from exceeding or falling short of the agreed-upon performance standards in accordance with Attachment I of the agreements.

Article 9 of the SBR agreement establishes monthly, quarterly and annual reporting requirements, which include but is not limited to:

- Weight and volume of all materials by material type (e.g., solid waste, recyclable materials, organic materials, etc.) and hauler type (e.g., Recology, public, commercial haulers, etc.) entering the Shoreway Facility.
- Weight and volume of all materials by material type (e.g., solid waste, recyclable materials, organic materials, etc.) leaving the Shoreway Facility.

- Weight and volume of all materials moving between the buildings and operations at the Shoreway Facility (e.g., between the material recover facility, transfer station building, and the buyback center).

- The calculation of liquidated damages resulting from non-compliance of the agreed-upon performance standards listed in Attachment 10 of the operating agreement.

Recology and SBR, collectively "Contractors", are required to compile and maintain records related to its performance to develop various reports required per the collection franchise agreements and operating agreement, as described above. The primary nature of the quantitative data presented in the Contractors' reports is self-reported. Therefore, the goal for this review is to confirm the legitimacy and accuracy of the information contained in reports issued by the Contractors.

1.2 HF&H Scope of Work

The SBWMA retained HF&H Consultants (HF&H) to review, test, and verify the legitimacy and accuracy of the information contained in the reports, as well as provide recommendations for improvement, if necessary. Our scope of work involved the following tasks:

- Assessing reports for compliance with the franchise agreements;
- Examining reports for mathematical accuracy and logical consistency;
- Interviewing Contractor staff to understand policies and procedures for gathering and reporting various data contained in the reports;
- Reviewing Contractors' historical reports, data, and customer complaint logs;
- Conducting assessment of Recology's customer service reporting;
- Verifying the accuracy of Recology's allocation of collected tonnage to the SBWMA's twelve Member Agencies;
- Verify the accuracy of SBR's reported inbound and outbound tonnage at the Shoreway Facility;
- Presenting our findings and providing recommendations for improvement.

1.3 Report Organization

This report is organized in the following sections:

- **Section 1** provides a brief background on the SBWMA's goals and objectives for the collection services and facility operations report auditing project and an overview of HF&H's scope of services.
- **Section 2** describes the completeness and mathematical accuracy of the annual reports provided by the Contractors.

- **Section 3** summarizes the methodology and findings of our review of Recology's annual report for the year ending December 31, 2012. Specifically, the section focuses on our assessment of: 1) Recology's customer service call center reporting; 2) Recology's allocation of collected tonnage to the SBWMA's twelve Member Agencies; and, 3) Recology's calculation of liquidated damages, incentives, and disincentive payments, if any.
- **Section 4** summarizes the methodology and findings of our review of SBR's annual report for the year ending December 31, 2012. Specifically, the section focuses on our assessment of: 1) SBR's reported inbound and outbound tonnage by material type; and, 2) SBR's calculation of liquidated damages, if any.
- **Section 5** provides a consolidated summary of all recommendations.

1.4 Limitations

The scope of our work does not constitute an audit of financial statements, or any part thereof. As with any project of this type, other matters might have come to our attention that would have been pertinent to report if we had performed additional procedures. Additionally, we did not perform testing procedures that would provide statistically-valid results, except the testing we conducted in Section 3.2.1 (which did provide statistically valid results). The sample sizes used were intended to confirm that the Companies' stated policies and procedures used to compile their annual reports to the SBWMA's Member Agencies were implemented consistently and accurately.

SECTION 2. COMPLETENESS AND MATHEMATICAL ACCURACY

This section documents our review that the reports submitted by the Contractors are complete for each of the reporting categories required in accordance with Article 9 of the Recology franchise agreements and SBR operating agreement. Summarized below is HF&H's analysis and findings from our review of the completeness of the reports submitted, and the mathematical accuracy and logical consistency (that the columns and rows add correctly and tie to supporting schedules within the report).

2.1 Completeness of Reports - Recology

HF&H obtained hard copy and electronic files of Recology's 2012 annual report and compared the contents of the reports to the required contents in accordance with Section 9.07, in Recology's franchise agreements. The following Figures summarize the required contents of the annual report and states whether Recology submitted the required information and includes comments when additional explanation is necessary. **Note: these Figures only state whether the information was provided, in part or in whole, and does not attest to the accuracy of the information. The accuracy of the information was also tested during this project and our findings are summarized in Section 3 of this report.**

Figure 2-1

Recology Annual Reports (Article 9.07)		
	Included in Reports?	Comments
Cumulative summary of information provided in Quarterly Reports.	Yes	
PLUS:		
A. Operational Information		
1. Routes by Service Sector		
a. Number of routes per Day	Yes	
b. Types of vehicles	Yes	
c. Crew size per route	Yes	
d. n/a; "d" skipped in draft agreements	n/a	n/a
e. Number of full-time equivalent routes	Yes	
f. Number of accounts per route	Yes	
g. Total hours per Service Sector per Day and per year	Yes	
h. Average cost per route	Yes	
i. Route sheets and maps	Yes	
2. Personnel		
a. Organizational chart	Yes	
b. Job classifications and number of full-time equivalent positions	Yes	
c. Annual wages by job classification including benefits	Yes	
3. Productivity Statistics		
a. Number of accounts per Service Sector	Yes	
b. Number of set-outs per Service Sector	Yes	
c. Tons per route per Day by Service Sector	Yes	

Figure 2-1 (cont.)

Recology Annual Reports (Article 9.07) - continued	Included in Reports?	Comments
4. Operational Changes		
a. Number of routes per Day	Yes	
b. Staffing	Yes	
c. Supervision	Yes	
d. Collection services	Yes	
5. Equipment. Inventory of equipment in accordance with Section	Yes	
6. Billing. Billing review report in accordance with Section 7.01.F.	Yes	
B. Customer Account Information		
Customer account (i.e., customer name, address, service level, etc.) information	Yes	Provided electronically
C. Customer Service Operations - Operations Plan		
1. Customer Service Call Center		
a. Provide CSR staff headcount and describe responsibilities	Yes	
b. Describe training strategy	Yes	
c. Describe approach to attract and retain high quality CSRs	Yes	
2. Website		
a. Number of on-line payments made	Yes	
b. Number of On-Call Collection Services scheduled	Yes	
c. Number of On-Call Bulky Goods Collections scheduled	Yes	
d. Number of extra Solid Waste pick-ups scheduled	Yes	
e. Number of service changes requested	Yes	
f. Number of Complaints documented and resolved	Yes	
3. Customer Information System		
a. Status of any changes or upgrades made to system software	Yes	
b. Description of proposed changes to system software	Yes	
c. Explanation and schedule of training activities	Yes	
4. Staffing	Yes	Provided in org chart
D. Related Party Entities		
Disclosure letter summaring financial transactions with related-parties	Yes	
E. Contractor's Review of Billings		
Submit a report on its review of customer billings.	Yes	
F. Determination and Payment of Liquidated Damages		
Summarize number of complaints (by category) and compute amount (if any) of liquidated damages accrued (based on standards established in Attachment J of the agreements).	Yes	
G. Determination and Payment of Performance Incentives and Disincentives		
Calculate performance incentive and disincentive payments due to exceeding or falling short of the agreed-upon standards in accordance with Attachment I of the agreements).	Yes	

Conclusions and Recommendations

As indicated in the preceding figures, Recology has submitted all the necessary components of their 2012 annual report. No recommendations necessary.

2.2 Completeness of Reports - SBR

HF&H obtained hard copy and electronic files of SBR's annual report and compared the contents of the reports to the required contents in accordance with Section 9.06, in SBR's operating agreement. The following Figure 2-2 summarizes the required contents of the annual report and states whether SBR submitted the required information and includes comments when additional explanation is necessary. **Note: these summaries only state whether the information was provided and does not attest to the accuracy of the information. The accuracy of the information was tested under separate review and our findings are summarized in Section 4 of this report.**

Figure 2-2

SBR Annual Reports (Article 9.06)		
Report Requirements (Cumulative summary of information provided in Quarterly Reports.)	Submitted in Reports?	Comments
Inbound Tonnage. Provide tons and/or yards accepted at the SEC by material type by customer type (e.g., Recology franchise, self-haul, member agency vehicles, buyback center).	Yes	
Outbound Tonnage. Provide tons and/or yards (by material type) leaving the SEC.	Yes	
On-Site Tonnage. Provide tons and/or yards (by material type) moving between the opereations at the SEC (e.g., MRF bulding, Transfer Station, Buyback Center).	Yes	
Diversion Level. Percentage of materials diverted by material type.	Yes	
Delivery Location. Provide delivery location of all materials leaving the SEC.	Yes	
Commodity Sales. Provide commodity sales value (by material type).	Yes	
Changes to Facilities, Equipment, and Personnel. Provide list of any significant changes to facilities, equipment, personnel, operations, maintenance or repair.	Yes	
Accident Report. Report incidences of accidents involving either employees or customers.	Yes	
Hazardous Spills Report. Document hazardous spills occuring at the SEC and report shipments of any hazardous materials received and shipped.	Yes	
Determination and Payment of Liquidated Damages. Provide number of occurances and allowances of incidences that trigger liquidated damages and calculate amount due, if any.	Yes	
Program Summary. Provide narrative reports on goals, milestones, and accomplishements.	Yes	
Summary Assessment. Provide a summary assessment of the overall materials handling systems are operating in terms of efficiency, economy, and effectiveness.	Yes	
Equipment Inventory. Provide complete inventory of equipment used to provide all services.	Yes	
Personnel List. Provide a list of SBR personnel used to operate the SEC.	Yes	

Conclusions and Recommendations

As indicated in the preceding figures, SBR has submitted complete quarterly and annual reports. No recommendations necessary.

2.3 Mathematical Accuracy and Logical Consistency of Reports – Recology

HF&H reviewed the mathematical accuracy and logical consistency of that report which includes the previous twelve months of data. We verified the prior month's tonnage data tied to the previously reported months and quarters and the reported annual amounts add properly.

Conclusions and Recommendations

No exceptions found. No recommendations necessary.

2.4 Mathematical Accuracy and Logical Consistency of Reports - SBR

HF&H reviewed the mathematical accuracy and logical consistency of that report which includes the previous twelve months data. Our review found one minor instance of totals and subtotals not adding correctly on Attachment 3 – Shoreway Facility Inbound Monthly Tons. Attachment 3 summarizes the "Franchised Inbound Tons (Recology)", which includes "Other Franchise Transfer Station Diversion" tons. The "Overall Total" of "Franchised Inbound Tons (Recology)" mistakenly excludes the "Other Franchise Transfer Station Diversion" tons. Fortunately, the total for the year of such tons is only 26.38 tons out of nearly 350,000 franchised tons; therefore, the report does not materially misstate the "Franchised Inbound Tons (Recology)".

Conclusions and Recommendations

> *SBR Recommendation #1: Due to the immaterial nature of the mathematical inaccuracy, we do not recommend SBR re-submit their annual report. However, SBR should correct the formula in their report spreadsheet to include "Other Franchise Transfer Station Diversion" tons in their total.*

SECTION 3. EVALUATE ACCURACY OF RECOLOGY DATA

3.1 Accuracy of Tonnage Data Reported

3.1.1 Comparison of Recology Tons to SBR Reported Tons.

Recology's annual report includes tonnage collected by Member Agency by month and by service type (i.e., commercial, residential, multi-family, roll-off, etc.).

To test accuracy of their reported tons, we first verified the total tons reported by Recology (by month) tied to the inbound tonnage reported by SBR in their 2012 annual report. Figure 3-1 compares the monthly tons reported by Recology to the tons reported by SBR.

Figure 3-1

	Tons Disposed				Tons Diverted			
2012	Recology Report[1]	SBR Report[2]	Variance		Recology Report[1]	SBR Report[3]	Variance	
January	15,332	15,332	-	0.00%	13,745	13,742	(3)	-0.02%
February	14,000	14,000	-	0.00%	11,688	11,690	3	0.02%
March	15,112	15,108	(5)	-0.03%	12,741	12,736	(5)	-0.04%
April	14,905	14,908	3	0.02%	13,949	13,950	1	0.01%
May	15,928	15,927	(1)	0.00%	15,193	15,191	(2)	-0.01%
June	15,025	15,025	(0)	0.00%	13,351	13,345	(6)	-0.04%
July	15,600	15,603	3	0.02%	13,512	13,508	(4)	-0.03%
August	16,008	16,007	(1)	-0.01%	13,968	13,965	(2)	-0.02%
September	13,747	13,746	(1)	-0.01%	12,496	12,496	0	0.00%
October	15,831	15,830	(1)	0.00%	14,861	14,861	0	0.00%
November	15,630	15,630	-	0.00%	14,798	14,796	(2)	-0.01%
December	15,973	15,973	(0)	0.00%	16,538	16,540	2	0.01%
Total	**183,091**	**183,089**	**(2)**	**0.00%**	**166,837**	**166,820**	**(17)**	**-0.01%**

[1] Source: Recology's 2012 Annual Report (electronic version). Section C - Tonnage Summary

[2] Source: SBR's 2012 Annual Report. Attachment 3: Franchised Inbound Tons, Subtotal Disposed

[3] Source: SBR's 2012 Annual Report. Attachment 3: Franchised Inbound Tons, Subtotal Diverted + Other Franchise TS Diversion

HF&H then selected the months of June and December to test in greater detail. We verified that the original source documents (weight tickets from SBRs PC Scale system) accurately tie to SBR's monthly customer summary report for Recology. The monthly customer report was then used to test the accuracy of Recology's reported tonnage. No material variances were found.

Conclusions and Recommendations

No exceptions found. No recommendations necessary.

3.1.2 Tonnage Allocation Review

Section 3.1.1 verified the accuracy of total tons collected system-wide. In addition, Recology is responsible for reporting the allocation of the inbound tonnage (by Member Agency) monthly. Based on our understanding of the allocation methodology described during our interview of Recology staff responsible, we gathered the applicable supporting documents to test the calculation of and application of Recology's tonnage allocation methodology.

Recology reports tons collected (by material type) and by Member Agency from a variety of sources, including:

- Regularly scheduled cart and bin customers;
- Regularly scheduled roll-off/compactor customers;
- Bulky item/on-call collections;
- Abandoned waste/illegal dumping;

Regularly Scheduled Cart and Bin Customers. To allocate tons collected from regularly scheduled cart and bin customers, Recology has developed and applies a capacity-based methodology. For each route (and each day the route operates), they identify the customers being serviced by Member Agency and they have assigned a unique origin code for each Member Agency (by customer type; see examples in Figure 3-2 below). They then calculate the service capacity of each customer based upon their subscription levels (i.e., 20-gallon cart, 2 cubic yard bin, etc.). From this information, they calculate a percentage share of the total capacity on the given route, for each Member Agency. For example, if 20% of subscription volumes are from residential customers within Atherton, 20% of the solid waste tons collected on that exact day on that route are attributed to residential solid-waste customers in Atherton. These allocation percentages are updated to reflect any changes in routing or major changes in customer subscription levels.

Figure 3-2

Member Agency	Customer Type	Code
Atherton	Residential	ATH/R
Atherton	Commercial	ATH/C
Foster City	Multi-Family	FOC/A
San Mateo	Residential	MAT/R
North Fair Oaks	Commercial	NFO/C
Menlo Park	Agency Facility	C7
Redwood City	Agency Facility	C8
San Carlos	Agency Facility	C9
San Mateo	Agency Facility	C10

Regularly scheduled roll-off/compactor customers. Each roll-off/compactor load comes from a single location; therefore, 100% of the tons are attributed to the Member Agency in which the customer is located.

Bulky item/on-call collections. To allocate tons collected from customers requesting bulky-item or on-call cleanups, Recology tracks the request for services by Member Agency and allocates actual tons collected on the two dedicated routes based on each Member Agencies percentage share of the total number of collections that day. For example, if bulky item route #701 collected 10 bulky collections from 10 different Member Agencies that day, each Member Agency would be allocated 10% of the total tons collected on that route that day.

Abandoned waste/Illegal Dumping. Recology keeps a manual log of abandoned waste collected (including the origin). Recology stated the abandoned waste is collected by a Bulky Item Collection Vehicle and the tons collected are based on assumed weights for the items collected and attributed to the member agencies requesting the collection.

Testing the Accuracy of Tonnage Allocations

HF&H tested the capacity-based methodology employed to allocate collected tons among the Member Agencies, which is derived from customer account and service level records, and determined the methodology to be in accordance with standard industry practices.

To test the accuracy of Recology's application of the stated methodology, HF&H developed a model using Recology's system-generated allocation percentages and a complete monthly ticket report from SBR to recreate capacity-based allocation percentages by month. The following figures summarize the results of the six route days tested. We attempted to test allocation percentages in effect during 2012; however, **Recology management stated that the corresponding subscription information the system used to generate such allocation percentages was no longer available**. Recology's system is unable to re-create historical customer subscription levels; therefore, we were unable to test the historical allocations during 2012. We were informed that the most recent allocations were calculated on April 1, 2013; therefore, the allocation percentages provided by Recology shown in the Figures below reflect tonnage allocations in effect as of April 1, 2013.

Figure 3-3:
Route 876, Friday, Organics

Member Agency	Customer Type	RSMC Reported	HF&H Calculated	Variance
SNC	R	99.7%	99.7%	0.0%
BEL	R	0.3%	0.3%	0.0%
		100.0%	100.0%	0.0%

Figure 3-4:
Route 890, Monday, Organics

Member Agency	Customer Type	RSMC Reported	HF&H Calculated	Variance
HIL	C	100.0%	100.0%	0.0%

Figure 3-5:
Route 606, Wednesday, Solid Waste

Member Agency	Customer Type	RSMC Reported	HF&H Calculated	Variance
BUR	A	52.3%	56.0%	3.7%
BUR	C	22.9%	20.7%	-2.2%
MAT	A	11.5%	9.6%	-1.8%
C03	C	8.1%	8.6%	0.5%
HIL	C	3.6%	3.1%	-0.5%
MAT	C	1.3%	1.6%	0.3%
BUR	R	0.3%	0.4%	0.0%
		100.0%	100.0%	0.0%

Figure 3-6:
Route 632, Tuesday, Recycling

Member Agency	Customer Type	RSMC Reported	HF&H Calculated	Variance
MPK	A	42.1%	43.2%	1.2%
MPK	R	20.0%	19.7%	-0.3%
EPA	A	13.5%	13.5%	-0.1%
MPK	C	7.6%	7.1%	-0.5%
EPA	R	5.3%	5.6%	0.3%
NFO	A	3.7%	2.2%	-1.5%
EPA	C	2.8%	3.0%	0.2%
NFO	C	2.0%	2.5%	0.5%
WBS	A	1.7%	1.7%	0.0%
C07	C	1.4%	1.4%	0.0%
		100.0%	100.0%	0.0%

Figure 3-7:
Route 637, Tuesday, Recycling

Member Agency	Customer Type	RSMC Reported	HF&H Calculated	Variance
MAT	A	67.8%	65.4%	-2.4%
MAT	C	31.4%	33.8%	2.4%
C10	C	0.8%	0.8%	0.0%
		100.00%	0%	0.0%

Figure 3-8:
Route 859, Thursday, Recycling

Member Agency	Customer Type	RSMC Reported	HF&H Calculated	Variance
SNC	R	41.9%	41.5%	-0.4%
CSM	R	25.2%	25.2%	-0.1%
WBS	R	21.6%	22.1%	0.5%
HIL	R	3.8%	3.5%	-0.3%
BEL	R	3.2%	3.5%	0.3%
BUR	R	2.7%	2.7%	0.0%
ATH	R	1.2%	1.2%	0.0%
MPK	R	0.3%	0.3%	0.0%
		100.0%	100.0%	0.0%

Three of the six route days tested showed material variances between the reported allocation percentages and our re-calculated allocation percentages.

Conclusions and Recommendations

Our testing found Recology is using an industry-standard subscription volume based methodology to allocate tonnage among the Member Agencies; however, our test is inconclusive because the subscription level information was gathered by Recology two months after the allocation percentages were calculated. The variances shown in the figures above may be a timing issue as a result.

Recology Recommendation #1: To validate that the variances are due to timing, and that there are not other contributing factors, we recommend that each quarter Recology re-calculate their tonnage allocation factors and download and retain the corresponding subscription levels so that the SBWMA staff can re-test the allocation percentages using timely data.

Recology Recommendation #2: We recommend Recology continue to report to the SBWMA whenever their tonnage allocation percentages change, as such changes will impact future cost allocations. The reporting should include the rationale for the update and variances between the "old" and the "new" allocators.

3.2 Customer Service Review

3.2.1 Recording and Follow Up of Complaints/Requests

When a customer calls into the Recology customer service center, a Customer Service Representative (CSR) answers the phone and manages the call either answering questions or directing action by the tickets that are generated. All calls should be documented in the account with an appropriate reason code attached. If the call is a complaint or requires further follow through, additional tickets will be generated for the appropriate staff (supervisors, operations, customer service, etc.). The customer is contacted by the supervisor and the ticket is resolved in the system as necessary. This may mean a route

sequence change, a disciplinary action against a driver, etc. The supervisor is responsible for directing further action if necessary and for resolving the complaint.

3.2.2 Training and Reference Materials

Recology provides training to its CSR's when they first start and then periodic trainings throughout the year. Additionally they have reference materials and training documents electronically available on the AS400 database as well as the Recology network. Some of the materials available include lists of rate codes by franchise, links to each franchise agreement, reason codes, new procedures, and a CSR "cheat sheet" which is divided by franchise and includes basic information like extra pick up rules/charges, extra bulky charges, return trip and extra bag charges.

3.2.3 Verify Accuracy of Reported Call Center Phone System Reports

Recology's annual report includes a summary of the following call center statistics:

- Number of Calls Received
- Number of Calls Answered
- Number and Percentage of Calls Dropped
- Average Hold Time/Speed of Answer (in seconds)*
- Percentage of Calls Answered in 30 Seconds*

* Denotes call center statistics subject to performance standards subject to liquidated damages

Based on our interview with Recology's Customer Service Manager, we found Recology's phone system (ShoreTel) has reporting capabilities which provides the statistics listed above, with the exception of the Average Hold Time/Speed of Answer. Recology manually calculates the average speed of answer by: 1) multiplying the number of calls answered within the six set ranges in the phone system report (i.e., number of calls answered between 0-15 seconds, 16-30 seconds, 31-45 seconds, 46-60 seconds, 61-90 seconds, and 90-105 seconds) by the midpoint of each range; and 2) divide the sum of those calculations by the total number of calls. It should be noted, that this manual calculation is now automated since June 2012. We reviewed Recology's phone system reports and found Recology's annual report tied to the supporting reports for each month.

Conclusions and Recommendations

No exceptions found. No recommendations necessary.

3.2.4 Audit of Accuracy of Reason Codes

To test the accuracy of Recology's customer service reporting, we gathered customer call logs for multiple months during 2012 and compared the customer call logs to the number of inquiries, service requests, and complaints reported and included in Recology's monthly reports. The monthly reports

identify the inquiries, service requests, and complaints by Member Agency. We first tested the accuracy of the use of the reason codes by the CSRs.

As discussed above, we tested the accuracy of the customer service statistics included in Recology's annual report to verify they tie to Recology's call center reports. However, testing just one way (from the reports to the source documents) will only verify the accuracy of the number of reported incidences (i.e., missed pickups, noise complaints, container placement complaints, etc.), **not if the complaints have been properly coded by the Customer Service Representative (CSR)**. This is why the SBWMA conducted a separate audit of the customer call center performance with Cascadia Consulting. The results of this auditing work identified discrepancies in proper call coding and the results are contained in a separate report.

HF&H sampled a preliminary test group of 380 customer calls. We found that of the total number of calls sampled, 98% were coded correctly and 2% were coded incorrectly. This compares favorably to last year's review where we found 14% of sampled calls were miscoded. Of the 2% (which equates to 9 out of 380 calls) that were miscoded, we determined that 5 of the miscodes (or 1.13% of total tickets tested) related to missed pickups that are subject to incentive/disincentive payments. Based on Recology's CSRs logging approximately 2,600 customer complaints/inquiries per month (from single-family customers, which are subject to the missed pickup incentive/disincentive performance standard), we have estimated an additional 396 missed pick-up complaints (or 33 calls per month, spread across all Member Agencies) should be added to Recology's calculation of its missed pickup incentive/disincentive payment calculation.

Conclusions and Recommendations

Recology Recommendation #3: Train CSRs to use specific key words in the "Notes" section to provide additional detail and enable quality control checks. When such training is conducted, we recommend Recology provide documentation to the SBWMA of the nature of the training, who attended, and the materials distributed.

Recology Recommendation #4: Based on the findings from our reason code testing that a number of calls/complaints were improperly coded, we recalculated the number of instances of complaints that are subject to incentive/disincentive payments or liquidated damages. The recalculation of the number of instances of complaints has resulted in changes to Recology's incentive/disincentive and liquidated damage payments. Section 3.2.5 summarizes our methodology for recalculating the payments and the amounts due.

3.2.5 Verify Accuracy of Liquidated Damages, Incentive, and Disincentive Payments

HF&H tested to verify that liquidated damage, incentive, and disincentive payments have been properly calculated in accordance with the franchise agreements and tie to Recology's supporting documentation. To begin, we verified that the liquidated damage, incentive, and disincentive payment stipulations detailed in the franchise agreements properly tie to the reports with regards to dollar amounts, as well as monthly allowances.

To test the accuracy of the instances reported by Recology (by complaint type and by Member Agency) we reviewed Recology's monthly CSR tickets generated by customer calls and found Recology underreported the number of missed pickups, instances of property damage, instances of spills, and instances of reported bad behavior. In addition to the underreporting of the instances noted above and the results of our customer service report verification (Sections 3.2.3 and 3.2.4 above), we find Recology has not properly identified the number of complaints subject to incentive/disincentive or liquidated damage payments. Therefore, we have recalculated the actual number of instances of the following complaints (and the incentive/disincentive or liquidated damage payments due to the SBWMA or due to Recology resulting from our recalculation):

- Initial Missed Pickups
- Property Damage
- Unacceptable Employee Behavior
- Spills

Conclusions and Recommendations

Figure 3-9 summarizes the incentive/disincentive payments and liquidated damage payments due from Recology, as a result of our extrapolated calculations. Based on our calculations, Recology is owed a net $605,315 incentive payment, as summarized below (which is $55,000 less than the $660,315 Recology calculated in their annual report). Figure 3-10 provides the breakdown by Member Agency.

Figure 3-9: Summary of Performance Incentives/Disincentives and Liquidated Damages

	Total per Recology	Total per HF&H	Variance
Performance Incentives/Disincentive			
Missed pickups – initial complaint	$193,950	$155,600	($38,350)
Missed pickup – events	($2,050)	($2,050)	$0
Call Center Statistics – Speed of answer	$6,005	$6,005	$0
Call Center Statistics – > 90 second wait time	($22,255)	($22,255)	$0
Annual diversion incentive	$489,165	$489,165	$0
Subtotal Incentive/Disincentive	$664,815	$626,465	($38,350)
Liquidated Damages	Total per Recology[2]	Total per HF&H	Variance
Collection outside authorized hours/prop damage	($1,050)	($1,200)	($150)
Failure to provide new/chg services within 5 days	($100)	($100)	$0
Improper placement of containers	$0	$0	$0
Excessive noise	$0	$0	$0
Unacceptable employee behavior	($250)	($16,750)	($16,500)
Material spills	$0	$0	$0
Fluid spills	($3,000)	($3,000)	$0
Resolution of complaints - >10 days	($100)	($100)	$0
Subtotal Liquidated Damages	($4,500)	($21,150)	($16,650)
TOTAL PAYMENT DUE (TO)/FROM RECOLOGY	**+$660,315**	**+$605,315**	**($55,000)**

Note: Positive numbers denote net payment **to** Recology and negative numbers denote net payment **from** Recology to the Member Agencies.

[1] Payment made directly to the SBWMA as required in the Franchise Agreements.
[2] Payments made directly to the Member Agencies as required in the Franchise Agreements.

Figure 3-10, prepared by the SBWMA, summarizes the net incentive/disincentive payments due to Recology for 2012 operations, by Member Agency. The 2012 performance incentive payments due to Recology (as shown below) should be in the SBWMA Report Reviewing the Recology 2014 Compensation Application.

Figure 3-10: Summary of Liquidated Damage and Incentive/Disincentive Payments due Recology
(by Member Agency)

Column	A	B	C	D	E	F
MEMBER AGENCY	**Unadjusted Total Performance Incentives due to Recology per Recology 2012 Annual Report** (ties to Fig. 3-9)	Initial Missed Pickup Performance Incentives (ties to Fig. 3-9)	90 Second Maximum Hold Time Disincentives (ties to Fig. 3-9)	**Adjusted Total Performance Incentives and Disincentives due to Recology per Contract Negotiations**	Additional Liquidated Damages Owed to the Member Agencies (per the HF&H[1] and Cascadia[2] Audits)	Total **Performance Incentives** Payments Due to Recology
Atherton	($9,959)	($3,300)	$316	($6,975)	$111	($6,864)
Belmont	($35,716)	($14,950)	$984	($21,750)	$1,126	($20,625)
Burlingame	($71,985)	($12,550)	$2,804	($62,239)	$2,457	($59,783)
East Palo Alto	($38,503)	($9,300)	$1,377	($30,580)	$1,574	($29,006)
Foster City	($47,290)	($15,850)	$1,480	($32,920)	$1,192	($31,728)
Hillsborough	($14,176)	($5,750)	$401	($8,827)	$359	($8,468)
Menlo Park	($63,225)	($16,850)	$2,192	($48,567)	$2,506	($46,060)
North Fair Oaks	($18,019)	($5,000)	$613	($13,632)	$701	($12,932)
Redwood City	($131,452)	($34,900)	$4,563	($101,115)	$4,718	($96,397)
San Carlos	($51,738)	($16,500)	$1,672	($36,910)	$512	($36,398)
San Mateo	($152,660)	($43,200)	$5,172	($114,632)	$4,915	($109,717)
San Mateo County	($21,188)	($10,900)	$491	($10,779)	$562	($10,217)
West Bay	($8,904)	($4,900)	$191	($4,195)	$218	($3,977)
TOTAL	**($664,815)**	($193,950)	$22,256	($493,121)	$20,950	($472,171)

Column **A** reflects the unadjusted total Performance Incentives and Disincentives reported by Recology in its 2012 Annual Report.
Column **B** reflects Recology's calculation of the Initial Missed Pickup Performance Incentive payments in its 2012 Annual Report.
Column **C** reflects Recology's calculation of the 90 Second Maximum Hold Time Performance Disincentive payments in its 2012 Annual Report.
Column **D** is the total Performance Incentive payment due to Recology for 2012 after being adjusted to omit the "Initial Missed Pickups" and "90 Second Maximum Hold Time" Performance Incentive/Disincentives.
Column **E** reflects the net additional Liquidated Damages owed by Recology to the Member Agencies after deducting the Liquidated Damages payments made directly to various Member Agencies.
Column **F** is the total Performance Incentives Payments due to Recology after deducting the additional Liquidated Damages calculated per the HF&H and Cascadia audits.

[1] Per the audit results of HF&H, the additional Liquidated Damages totalled $16,650.
[2] Per the audit results of Cascadia Consulting, the additional Liquidated Damages totalled $4,300.
[1, 2] Recology agreed with the results of both the HF&H and Cascadia Consulting audits.

Recology Recommendation #5: Based on our review of Recology's customer service reports, the net performance incentive due Recology to be included in Recology's 2014 Compensation Application (which will be presented to the Board in September 2013) should reflect the amounts shown in Figure 3-10.

SECTION 4. EVALUATE ACCURACY OF SBR DATA

4.1 Verify Accuracy of Inbound Tonnage Data Reported

As part of our review of Recology's tonnage reported (see Section 3.1 of this report), HF&H verified that the tonnage reported by Recology tied to the tonnage reported by SBR. In this task, we compared tonnage reported by SBR to the actual weight ticket summaries from SBR's PC Scale system. We verified that the following reported inbound categories all tied accurately to the PC Scale system reports:

- Franchised Inbound Tons (Recology);
- Member Agency Vehicles Inbound Tons;
- Recology Maintenance Box Tons;
- Buyback Recyclable Materials Tons; and,
- South Bay Recycling Internal Tons (residue tons from MRF operations disposed at Transfer Station).

SBR currently reports self-haul tonnage as the effective difference between reported inbound and outbound tonnage. However, SBR tracks self-haul yardage as it is received through the PC Scale system. HF&H verified that the following self-haul categories reported in the back-up data for SBR's reports accurately ties to the PC Scale system reports:

- C&D Yards;
- Green Waste Yards;
- Wood Waste Yards;
- Asphalt Roofing;
- Concrete;
- Dirt;
- Appliances;
- Garage Doors;
- Mattresses;
- Refrigerators;
- Sofas;
- Tires; and,
- Water Heaters.

HF&H found no discrepancies or instances of substantial variances in any tonnage category tested.

4.2 Verify Accuracy of Outbound Tonnage Data Reported

SBR's quarterly report includes outbound tonnage shipped from the facility. We sampled tonnages reported in SBR's March and December 2012 report to verify the amounts tied to the supporting documents. The testing included reviewing tonnage summaries produced by SBR as well as reports from the facilities to which the material was delivered (e.g., Ox Mountain Landfill, Newby Island Compost Facility, etc.). **HF&H has no recommended revisions to SBR's reported outbound tonnages.**

4.3 Verify Accuracy of Member Agency-Direct Hauled, Third-Party, and Recology Maintenance Box Tonnage Data Reported

SBR is required to report tonnage received from the public, Member Agency vehicles, and other third-party customers. We sampled various tonnages reported and verified the amounts tie to the supporting documents, without exception. The following tables summarize the specific data points tested and the resulting variances, if any.

Figure 4-1

SBR Reported Member Agency Tons						
Month	Member Agency	Material Type	Reported - SBR	HF&H Test of Tickets	Variance Tons	Variance %
January	RWC - Redwood City	Solid Waste	1.55	1.55	-	0%
February	BUR - Burlingame	Recycling	-	-	-	0%
March	SNC - San Carlos	Organics	3.08	3.08	-	0%
April	FOC - Foster City	Inert / C&D	17.81	17.81	-	0%
May	BEL - Belmont	Solid Waste	46.74	46.74	-	0%
June	MAT - San Mateo	Recycling	-	-	-	0%
July	RWC - Redwood City	Organics	13.34	13.34	-	0%
August	BUR - Burlingame	Inert / C&D	-	-	-	0%
September	SNC - San Carlos	Solid Waste	6.04	6.04	-	0%
October	FOC - Foster City	Recycling	-	-	-	0%
November	BEL - Belmont	Organics	7.02	7.02	-	0%
December	SNC - San Carlos	Inert / C&D	15.97	15.97	-	0%

Figure 4-2

SBR Reported Self-Haul							
		March			October		
Material Code	Matierial Description	Reported Yards/Each	Tickets Yards/Each	Variance %	Reported Yards/Each	Tickets Yards/Each	Variance %
CDY	C&D YARDS	4,883	4,883	0%	6,477	6,477	0%
GREENY	Green / Organics Yards	2,251	2,251	0%	3,597	3,597	0%
WOODY	Wood Waste Yards	886	886	0%	1,298	1,298	0%
MSWY	MSW YARDS	2,250	2,250	0%	2,611	2,611	0%
AR	Asphalt Roofing	-	-	0%	133	133	0%
CONC	Concrete	22	22	0%	104	104	0%
DIRT	Dirt	115	115	0%	214	214	0%
APPI	Appliances	55	55	0%	36	36	0%
CMSA & CMA	Copy Machine	4	4	0%	-	-	0%
GD1	Garage Door Single	2	2	0%	8	8	0%
GD2	Garage Door Double	8	8	0%	10	10	0%
MATI	Mattress	243	243	0%	289	289	0%
RNPFE	Refrigerators (Non Evacua	13	13	0%	21	21	0%
RPFE	Refrigerators (Evacuated)	-	-	0%	-	-	0%
SOFA	Sofa	103	103	0%	97	97	0%
TIREANR	Tire Auto (without RIM)	17	17	0%	24	24	0%
TIREAR	Tire Auto with Rims	7	7	0%	1	1	0%
WH59	Water Heater >60 Gal	22	22	0%	15	15	0%
WH60	Water Heater <59 Gal	2	2	0%	-	-	0%

Figure 4-3

Third Party Customer - Reported Tonnage Daly City - Republic Services - Food Scraps				
Month	Reported	Tickets	Variance tons	Variance %
January	80.37	80.37	0.00	0%
February	79.22	79.22	0.00	0%
March	106.01	106.01	0.00	0%
April	114.15	114.15	0.00	0%
May	103.59	103.59	0.00	0%
June	89.99	89.99	0.00	0%
July	76.33	76.33	0.00	0%
August	80.00	80.00	0.00	0%
September	71.79	71.79	0.00	0%
October	72.43	72.43	0.00	0%
November	68.78	68.78	0.00	0%
December	83.63	83.63	0.00	0%

Figure 4-4

Third Party Customer - Reported Tonnage Daly City - Newby Republic - Recyclables into MRF				
Month	Reported	Tickets	Variance tons	Variance %
January	970.75	970.75	0.00	0%
February	810.75	810.75	0.00	0%
March	916.67	916.67	0.00	0%
April	861.90	861.90	0.00	0%
May	941.92	941.92	0.00	0%
June	788.35	788.35	0.00	0%
July	442.87	442.87	0.00	0%
August	63.84	63.84	0.00	0%
September	0.00	0.00	0.00	0%
October	0.00	0.00	0.00	0%
November	0.00	0.00	0.00	0%
December	0.00	0.00	0.00	0%

Figure 4-5

Third Party Customer - Reported Tonnage Redwood Debris Box Service - Recyclables into MRF				
Month	Reported	Tickets	Variance tons	Variance %
January	4.55	4.55	0.00	0%
February	7.34	7.34	0.00	0%
		6.60		
		0.74		
March	6.54	6.54	0.00	0%
		5.81		
		0.73		
April	6.34	6.34	0.00	0%
May	11.27	11.27	0.00	0%
		9.31		
		1.96		
June	10.73	10.73	0.00	0%
July	3.85	3.85	0.00	0%
		2.65		
		1.20		
August	11.44	11.44	0.00	0%
		8.51		
		2.93		
September	8.56	8.56	0.00	0%
		5.35		
		3.21		
October	7.65	7.65	0.00	0%
November	3.02	3.02	0.00	0%
December	7.33	7.33	0.00	0%

4.4 Verify Accuracy of Liquidated Damages

SBR's quarterly and annual reports did not include any reportable instances of service issues that would trigger the payment of liquidated damages in accordance with Attachment I of the operating agreement.

SECTION 5. RECOMMENDATIONS

This section includes a comprehensive list of the recommendations included throughout this report.

Recology

Section 2.1

None

Section 2.3

None

Section 3.1

Recology Recommendation #1: To validate that the variances are due to timing, and that there are not other contributing factors, we recommend that each quarter Recology re-calculate their tonnage allocation factors and download and retain the corresponding subscription levels so that the SBWMA staff can re-test the allocation percentages using timely data.

Recology Recommendation #2: We recommend Recology continue to report to the SBWMA whenever their tonnage allocation percentages change, as such changes will impact future cost allocations. The reporting should include the rationale for the update and variances between the "old" and the "new" allocators.

Section 3.2

Recology Recommendation #3: Train CSRs to use specific key words in the "Notes" section to provide additional detail and enable quality control checks. When such training is conducted, we recommend Recology provide documentation to the SBWMA of the nature of the training, who attended, and the materials distributed.

Recology Recommendation #4: Based on the findings from our reason code testing that a number of calls/complaints were improperly coded, we recalculated the number of instances of complaints that are subject to incentive/disincentive payments or liquidated damages. The recalculation of the number of instances of complaints has resulted in changes to Recology's incentive/disincentive and liquidated damage payments. Section 3.2.5 summarizes our methodology for recalculating the payments and the amounts due.

Recology Recommendation #5: Based on our review of Recology's customer service reports, the net performance incentive due Recology to be included in Recology's 2014 Compensation Application (which will be presented to the Board in September 2013) should reflect the amounts shown in Figure 3-10.

SBR

Section 2.2

None

Section 2.4

SBR Recommendation #1: Due to the immaterial nature of the mathematical inaccuracy, we do not recommend SBR re-submit their annual report. However, SBR should correct the formula in their report spreadsheet to include "Other Franchise Transfer Station Diversion" tons in their total.

ATTACHMENT B

Franchise Agreement Amendments by Member Agency		
Member Agency	**Action**	**Date**
Atherton	Pending	September
Belmont	Passed	8/13/2013
Burlingame	7A* Passed	6/17/2013
	7B* Passed	8/19/13
East Palo Alto	Passed	7/2/2013
Foster City	Passed	5/6/2013
Hillsborough	Pending	August
Menlo Park	Pending	August or September
Redwood City	TBD	
San Carlos	Passed	5/13/2013
San Mateo	Passed	7/15/2013
County of San Mateo	Pending	9/10/2013
West Bay Sanitary District	TBD	
*7A and 7B refer to the staff reports of the same number presented at the March 28, 2013 SBWMA Board of Director's meeting.		

STAFF REPORT

To:	SBWMA Board Members
From:	Marshall Moran, Finance Manager
Date:	September 12, 2013 Board of Director's Meeting
Subject:	Staff Update on Report on 2012 Financial Systems Audit of Recology and SBR Performed by Hilton, Farnkopf and Hobson Consulting, LLC

Recommendation

This staff report is for discussion purposes only and no formal action is requested of the Board of Directors

Analysis

The financial audit work covering calendar year 2012 performed by Hilton, Farnkopf and Hobson Consulting, LLC (HF&H) commenced in April 2013 and has concluded with submittal of the audit report attached (see Attachment A) detailing separate recommendations for Recology San Mateo County (Recology) and South Bay Recycling (SBR); see Section 2.8 for Recology and Section 3.2 for SBR. This audit work is an important part of our fiduciary responsibilities to our Member Agencies as it relates to monitoring contractor compliance with their respective agreements (i.e., Member Agency Franchise Agreement and Shoreway Operations Agreement).

HF&H reviewed the reporting of financial data and payments to the SBWMA and our Member Agencies by Recology and SBR as applicable. There was approximately $96,000,000 of rate payer's gross billings that flowed through Recology's financial and reporting system. Another approximately $15,000,000 is paid (remitted) by SBR to the SBWMA for commodities sold and gate revenue collected from public customers using the Shoreway Environmental Center.

Recology

For Recology, the primary focus of the audit is the 2012 Revenue Reconciliation which is submitted by Recology on March 31 each year for the prior calendar year. This report reconciles the amount retained by Recology (from gross customer billings less payment to Member Agencies for fees and to the SBWMA for disposal and processing fees at Shoreway) to the Board approved compensation owed to Recology for providing collection services by Member Agency. The result is a surplus or shortfall owed to/from Recology by Member Agency. In total, the 2012 adjusted final surplus was $1,873,517 (plus interest of $105,760) which is 1.9% of gross revenue.

The significant findings from the review of Recology's Revenue Reconciliation are summarized below and discussed further on the next page:

- A true-up of disposal payments by Recology to the SBWMA of $43,668 (see HFH report section 2.3)
- Attachment Q revenue adjustment of $110,016 (see Fig. 2.6b in report Appendix A)
- Adjustment to San Carlos of one-time fees associated with Allied Waste balancing account

The true-up of disposal payments by Recology to the SBWMA is caused by differences in reported tonnage and classification of materials between the SBR inbound scale system (at the Shoreway Environmental Center) and Recology's accounting system. Recology correctly paid what was billed to them and has agreed to pay the additional true-up amount.

There is a contractual issue that was found last year and again this year regarding Member Agency fees on the percent based Schedule Q rates whereby agency fees are "double counted". While Recology has followed the language in the Agreement, it has had the unintended results of increasing revenue to Recology by $110,016. Recology has accepted the recommended change that will eliminate this unintended increase Attachment Q fees.

An additional item surfaced regarding Recology's overpayment to the City of San Carlos of fees for an Allied Waste Balancing Account of $761,253 which had created a shortfall. The city paid this back to Recology in July 2013 to eliminate the shortfall and so that it would positively affect the 2014 rate adjustment. This issue has no current positive or negative impact on Recology and has now been properly dealt with by both parties.

The table below summarizes the recommended adjustments as a result of the audit which have a total positive impact service area wide of $206,995 plus the San Carlos repayment of $761,253 for total adjustments of $968,248. The total SBWMA-wide surplus is $1,873,617.

Member Agency	PER RECOLOGY	Audit Adjustments					FINAL
	Surplus/(Shortfall) Report Dated 3/31/13	Agency Fee Adjustment	Attachment Q Revenue Adjustment	County Account Adjustments	San Carlos Payment to Recology	Total Adjustments	Adjusted Surplus/ (Shortfall)
Atherton	$ 495,620		$ 2,213			$ 2,213	$ 497,833
Belmont	(669,344)	$ 47,406	16,051			63,457	(605,887)
Burlingame	966,952	-	12,765			12,765	979,717
East Palo Alto	99,492	(3,447)	3,764			317	99,809
Foster City	243,061	-	-			-	243,061
Hillsborough	200,057	-	721			721	200,778
Menlo Park	(66,654)	-	18,908			18,908	(47,746)
North Fair Oaks	(19,845)	(221)	-	$ 53,221		53,000	33,155
Redwood City	1,066,517	-	4,280	(109,146)		(104,866)	961,651
San Carlos	(559,338)	-	12,727		$ 761,253	773,980	214,642
San Mateo	(747,877)	-	38,587			38,587	(709,290)
West Bay	187,547	-	-			-	187,547
County	(290,819)	894	-	108,272		109,166	(181,653)
SBWMA Total	**$ 905,369**	$ 44,632	$ 110,016	$ 52,347	$ 761,253	**$ 968,248**	**$ 1,873,617**
Source of Adjustments in HFH report:		*Figure 2.4a*	*Figure 2.6b*	*Figure 2.7*	*Page 7*		

Excluding the San Carlos payment issue, the audit adjustments range from a positive impact of $109,166 to the County CFA area to a negative impact of $104,866 to Redwood City. The County Account Adjustments have to do with legacy customer account jurisdiction correction and non-franchise public school adjustments.

Recology agrees with all of these adjustments except they would have deferred $214,542 of the San Carlos repayment into rate year 2015. It should be noted that adjustments from over or under payments do not impact Recology other than timing. Recology does not keep any over or under payment. Once identified in the Revenue Reconciliation and subsequent audit, all adjustments, whether positive or negative, flow back to the rate payers. All Recology keeps after the Revenue Reconciliation and audit is what was approved by the Board as compensation for each rate year.

SBR

For SBR, the audit found one discrepancy in payments to the SBWMA for commodity revenue totaling $4,758. An additional $10,000 is owed to the SBWMA from SBR for underreported public revenue. SBR has agreed to pay back to the SBWMA the total of $14,758.

Background

The Member Agency's Collection Services Franchise Agreements with Recology prescribe numerous reporting and payment requirements including paying franchise fees to the Member Agencies and payments to the SBWMA for disposal and processing fees ("tipping fees") at the Shoreway facility. Recology also must track collected tonnage by material and

Member Agency, allocate disposal cost to Member Agencies and prepare an annual revenue reconciliation showing the net surplus or shortfall owed to/from Recology by each Member Agency.

The Shoreway Facility Operations Agreement with SBR requires the company to pay to the SBWMA all commodity revenue (from the sale of commodities) and public gate revenue.

The information and data contained in both contractors' reports are substantially self-reported by the companies and therefore this annual audit is imperative from a financial perspective. This is not a certified audit nor is statistically valid tests conducted but it is based on cost effective and reasonable industry practices.

The general purpose of the audit was to perform an evaluation and verification of financial reporting systems, processes and record keeping, analysis and audit of billing and revenue, and analyze and audit the allocation of revenue and costs to the twelve Member Agencies. The cost of the audit is approximately $55,000.

To summarize the scope of work, this project entailed a thorough review and verification of Recology San Mateo County's (Recology) 2012 Annual Revenue Reconciliation, Attachment Q revenue and costs, customer billing rates, and total cost allocation methodology for final 2012. The South Bay Recycling review included a verification of public revenue and commodity revenue reported and paid to the SBWMA for 2012. Tonnage, commodity prices, and CRV payments are reviewed.

This is the second year of contractor financial audits. Last year, due to legacy issues with non-franchise schools, the audit results reduced Recology's compensation by $108k and identified a $36k issue with Attachment Q unintended revenue to Recology. For SBR, a total of $67k was identified in underpayments to the SBWMA.

Fiscal Impact

The fiscal impact of the audit results in an increase to the total Member Agency surplus of $968,248 due from Recology, a disposal expense true-up payment of $43,668 by Recology to the SBWMA and additional payments from SBR to the SBWMA of $14,758 for rate (calendar) year 2012.

Attachments:

Attachment A - HF&H Financial Systems Audit of 2012 Collection Services and Facility Operations Contractors Report.
Attachment B – final 2011 Revenue Reconciliation tables

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Financial Systems Audit of 2012 Collection Services and Facility Operations Contractors

August 26, 2013

HF&H Consultants, LLC

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August 26, 2013

Mr. Marshall Moran
Finance Manager
South Bayside Waste Management Authority
610 Elm Street
San Carlos, CA 94070

Subject: 2012 Financial Systems Audit of Collection Services and Facility Operations Contractors

Reference Number: S2962

Dear Mr. Moran:

This report documents HF&H Consultants, LLC's (HF&H)) findings and recommendations to the South Bayside Waste Management Authority (SBWMA) from our review of the validity and accuracy of the information contained in reports issued by both Recology of San Mateo (Recology) and South Bay Recycling (SBR), collectively "Contractors".

* * * *

HF&H appreciates the assistance provided by Recology and SBR management and staff during our review and the direction and assistance received from the SBWMA. Should you have any questions, please call me at 925/977-6957.

Very truly yours,
HF&H CONSULTANTS, LLC

Richard J. Simonson, CMC
Vice President

cc: HF&H Client Files

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SECTION 1: INTRODUCTION

1.1 Background

Each Member Agency has executed separate franchise agreements with Recology to provide solid waste, recycling, and organic material collection services. The SBWMA has contracted with SBR to operating the Shoreway Environmental Center (SEC)

The contracts with Recology and SBR have various financial aspects that need to be verified and audited. The Franchise Agreement(s) with Recology require the company to perform a broad range of solid waste, recyclable and organic materials collection services and supporting functions. The pertinent supporting functions include billing residential and commercial customers, remitting agency fees billed, allocating the weight of materials collected in trucks to the various agencies provided service, and allocating collection costs to the member agencies. In addition, the company is required to compile and maintain records related to its operations as necessary to develop various reports required per the Franchise Agreement(s). The primary nature of the quantitative data presented in the Recology reports is self-reported by the company. At the end of the year, Recology reports by agency the net revenue billed compared to the amount owed to Recology for service and calculate a surplus or shortfall.

The contract with SBR requires SBR to pay the SBWMA all commodity revenue and all public gate revenue collected during the year and the SBWMA pays SBR for operating the SEC at a rate per ton as self-reported by SBR.

Therefore, on behalf of the twelve Member Agencies who each have executed separate Franchise Agreement(s) with Recology, and on behalf of the SBWMA who contracted with SBR to operate the SEC, HF&H conducted a review to confirm the legitimacy and accuracy of the information contained in reports provided by both companies.

1.2 HF&H Scope of Work

The SBWMA retained HF&H Consultants (HF&H) to review, test, and verify the legitimacy and accuracy of the information contained in Recology's 2012 revenue reconciliation report and SBR's 2012 commodity revenue and gate revenue remittances to the SBWMA, as well as provide recommendations for improvement, if necessary. Our scope of work involved the following tasks:

- Meeting with the SBWMA, Recology, and SBR staff to: (1) discuss the goals and objectives of the reporting audit; (2) reach agreement on the roles and responsibilities of HF&H, SBWMA, Recology, and SBR staff; (3) discuss the structure and components to be included in the final project report; and, (4) reach agreement on a project timeline.
- Assessing reports for compliance with the agreements;

- Comparing source documents to reported information;
- Examining reports for mathematical accuracy and logical consistency;
- Interviewing Contractor staff to understand policies and procedures for gathering and reporting various data contained in the reports;
- Reviewing Contractors' financial data and historical reports; and,
- Presenting our findings and providing recommendations for improvement.

1.3 Limitations

The scope of our work does not constitute an audit of financial statements, or any part thereof. As with any project of this type, other matters might have come to our attention that would have been pertinent to report if we had performed additional procedures. Additionally, we did not perform testing procedures that would provide statistically-valid results. The sample sizes used were intended to confirm that the Companies' stated policies and procedures used were implemented consistently and accurately.

SECTION 2. EVALUATE ACCURACY OF RECOLOGY DATA

2.1 Verify Mathematical Accuracy of Recology's 2012 Revenue Reconciliation

Purpose: Verify Recology has accurately calculated each Member Agency's 2012 revenue surplus/shortfall for the franchised services provided by Recology during calendar year 2012. In accordance with each Member Agency's Collection Services Franchise Agreement with Recology (Agreement), the 2012 surplus/shortfall will be added to or subtracted from Recology's 2014 compensation.

Figure 2.1 summarizes Recology's 2012 revenue reconciliation, submitted on March 31, 2013, calculated and submitted in compliance with Section 11.03 of the Member Agencies' Agreements. We reviewed the calculations to verify the mathematical accuracy and logical consistency of Recology's calculations and that the information tied to Recology's financial records. **No mathematical discrepancies were found.**

Figure 2.1

Member Agency	2012 Revenue Billed	Less: Expenses				Other Adjustments	Surplus/ (Shortfall)
		Disposal/ Processing	Agency Fees	Recology Base Services	Recology "Extra" Services		
Atherton	$ 3,227,369	$ (978,073)	$ (327,943)	$ (1,389,129)	$ (23,906)	$ (12,698)	$ 495,620
Belmont	5,797,844	(1,305,765)	(1,618,127)	(3,463,921)	(75,282)	(4,093)	(669,344)
Burlingame	10,701,485	(2,934,593)	(1,726,459)	(4,972,386)	(93,047)	(8,048)	966,952
East Palo Alto	4,590,885	(1,449,425)	(784,887)	(2,231,889)	(25,907)	715	99,492
Foster City	5,482,627	(1,494,621)	(389,625)	(3,330,527)	(29,636)	4,843	243,061
Hillsborough	3,330,702	(695,184)	(481,500)	(1,933,444)	(5,985)	(14,532)	200,057
Menlo Park	10,460,225	(2,715,425)	(2,339,925)	(5,363,938)	(102,941)	(4,650)	(66,654)
North Fair Oaks	2,429,902	(723,600)	(124,613)	(1,490,964)	(24,597)	(66,371)	(243)
Redwood City	17,756,627	(4,893,205)	(2,423,523)	(9,491,901)	(35,524)	134,441	1,046,915
San Carlos	7,507,783	(1,823,483)	(1,495,106)	(4,653,128)	(76,360)	(19,044)	(559,338)
San Mateo	20,526,299	(5,415,636)	(3,616,739)	(12,001,417)	(257,834)	17,450	(747,877)
West Bay	1,578,978	(380,971)	(89,186)	(911,365)	(11,234)	1,325	187,547
County	2,821,938	(767,946)	(153,640)	(2,067,085)	(11,796)	(112,290)	(290,819)
SBWMA Total	$ 96,212,664	$ (25,577,927)	$ (15,571,273)	$ (53,301,094)	$ (774,049)	$ (82,952)	$ 905,369

Whereas this task verified Recology's calculated surplus/shortfall by Member Agency was mathematically correct and tied to their audited financial statements, Sections 2.2 through 2.6 of this report summarize our detailed analysis of the following individual components to verify the financial records reflected the proper attribution of revenues and costs to each Member Agency:

- Gross Revenue Billed
- Solid Waste Disposal and Organics Processing Costs
- Agency Fees Collected and Paid
- Recology's 2012 Compensation for Base Services and "Attachment Q" Services
- Other Adjustments

Each Member Agencies' 2012 revenue surplus or shortfall shall be included as an adjustment to Recology's 2014 allowable compensation for each Member Agency (a reduction in compensation Recology's 2014 allowable compensation if a Member Agency has a surplus balance and an increase to Recology's compensation if a Member Agency has a shortfall balance).

2.2 Review of Gross Revenue Billed

Purpose: Verify Recology has accurately billed customers in accordance with approved rates and accurately reflected total billed revenue in each Member Agency's 2012 revenue surplus/shortfall calculation for the franchised services provided by Recology during calendar year 2012.

Testing Gross Revenue Billed

Recology bills and collects revenue from most of the residential and commercial customers within the SBWMA service area. Some member agencies bill for services and remit the collected revenue to Recology periodically. All revenue is recorded by Recology on their general ledger. To verify the accuracy of Recology's reported $96,212,664 total billed revenue for the 2012, we compared the billed revenue amounts included in Recology's 2012 revenue reconciliation report to Recology's system-generated general ledger and detailed journal entries by member agency. We found no discrepancies between Recology's revenue reconciliation report and their general ledger.

Testing Base Service Rates

To verify Recology is properly billing customers in accordance with the approved rates, we randomly selected customers from each member agency and each customer type (i.e., residential, apartment, and commercial customers). We received a list of all customers from Recology and randomly selected at least 130 customers (making sure each member agency had at least 10 customers selected) and compared the approved rates within each jurisdiction to Recology's billing system. **We found no discrepancies between the rates charged by Recology and the approved rates within each member agency.**

2.3 Review of Solid Waste Disposal and Organics Processing Costs

Purpose: Verify disposal and processing costs paid to the SBWMA reflects the tonnage collected within each Member Agency. In accordance with Section 11.03.b of the Franchise Agreements, Recology's annual revenue reconciliation calculation subtracts the payments made to the Authority for the delivery of materials to the designated facility.

Recology's 2012 revenue reconciliation deducted from each member agencies' billed revenue by their allocated share of solid waste disposal and organics processing costs, a total of $25,577,927.

Our first step was to verify that what Recology was charging the member agencies (in their 2012 revenue reconciliation) tied to the total expenses remitted to the SBWMA during the year. We found

Recology paid $25,534,259 to the SBWMA for member agencies disposal, while Recology's 2012 revenue reconciliation charged the member agencies a total of $25,577,927, a variance of $43,668. Further discussions with SBWMA and Recology staff found the 2012 revenue reconciliation amount is accurate and the amount billed by the SBWMA during the year was based on a portion of food waste tons being inaccurately classified as green waste tons. The SBWMA billing is based on tonnage reports from SBR and small variances between the two systems is expected. The inaccurate classification resulted in the SBWMA under billing Recology by $12/ton for those tons misclassified as green waste during 2012. The SBWMA will bill Recology, and Recology has agreed to pay, the $43,668 difference. As a result, Recology's 2012 revenue reconciliation includes the proper $25,577,927 in disposal/processing costs and no adjustment is necessary.

Once we established the accuracy of Recology's SBWMA-wide disposal and processing costs included in the 2012 revenue reconciliation, we verified the individual allocation to each member agency. We verified Recology accurately calculated the member agency disposal and organic processing costs by multiplying the then-current per-ton rates ($88 for solid waste, $89 for yard waste, and $101 for food waste) by the tonnage collected from each member agency.

We tied the stated tons back to Recology's 2012 annual report submitted to the SBWMA, no exceptions were noted; however, under a separate project, HF&H is auditing the accuracy of the allocation percentages used to distribute the tons to each member agency and the findings are inconclusive. Improvements to the allocation process are being reviewed but any change would affect the 2013 tonnage allocation and not be retroactive for 2012. The tentative findings may produce minor changes in the future.

2.4 Review of Agency Fees Billed and Paid

Purpose: Verify Recology has properly calculated and remitted the appropriate Agency Fees (in accordance with Attachment M of each Franchise Agreement) due each Member Agency.

To verify Recology properly calculated and remitted agency fees, we first confirmed the type and amount or rate of agency fees with each member agency. We also confirmed that each member agency received the amount of fees included in Recology's 2012 revenue reconciliation, with the following exceptions:

Figure 2.4a

Member Agency	Agency Fees (per Revenue Reconcilation)	Allied Balancing Account Timing Differences*	Adjusted Agency Fees	Agency Fees Reported Received**	Variance
Atherton	$327,943		$327,943	$327,943	($0)
Belmont	1,618,127		$1,618,127	1,570,721	(47,406)
Burlingame	1,726,459	(20,455)	$1,706,004	1,706,004	0
East Palo Alto	784,887		$784,887	788,334	3,447
Foster City	389,625		$389,625	389,625	0
Hillsborough	481,500		$481,500	481,500	(0)
Menlo Park	2,339,925	18,926	$2,358,851	2,358,851	0
North Fair Oaks	124,613		$124,613	124,834	221
Redwood City	175,481		$175,481	175,481	0
San Carlos	1,495,106	(1,292)	$1,493,814	1,493,814	(0)
San Mateo	3,616,739	(8,983)	$3,607,756	3,607,756	0
West Bay	89,186		$89,186	89,186	(0)
County	153,640		$153,640	152,746	(894)
SBWMA Total	$13,323,231	($11,804)	$13,311,427	$13,266,795	($44,632)

* Reconciliation reflects amount billed while Recology pays when cash is received
** Includes Agency Fees received by member agency plus
HHW fees received by SBWMA, where applicable

Next, we reviewed Recology's monthly agency fee calculation spreadsheets to verify the proper calculation of fees by member agency. We found Recology used the applicable franchise fee and other agency fee percentages and/or fixed fee amounts, with one exception. Recology continued to remit Allied Balancing Account payments to the City of San Carlos after the amount had been fully paid. San Carlos has agreed to pay the overage back to Recology and Recology has agreed to waive the interest.

Therefore, we recommend reducing (and our summary of each member agencies' surplus/shortfall shown in Figure 2.8 reflects) San Carlos' shortfall by $761,253 to reflect the payment back to Recology.

In addition, we did note variances in the billed revenues used to calculate the percentage-based fees versus the actual billed revenues we previously tied to Recology's financial records in Section 2.2 above. The following figure summarizes the variances found and the resulting over or underpayment of agency fees.

Figure 2.4b

Member Agency	Actual Gross Revenue Billed by Recology	Gross Revenue Used to Pay Agency Fees	Gross Revenue Variance	Estimated (Over)/Under Payment of Agency Fees
Atherton	$3,227,369	$3,227,369	($0)	$0
Belmont	5,797,844	5,799,614	1,770	(460)
Burlingame	10,701,485	10,705,336	3,851	(420)
East Palo Alto	4,590,885	4,649,759	58,874	(1,435)
Foster City	5,482,627	5,482,627	(0)	0
Hillsborough	3,330,702	3,512,703	182,001	(16,545)
Menlo Park	10,460,225	10,463,160	2,934	(381)
North Fair Oaks	2,429,902	2,429,902	0	0
Redwood City	1,285,576	1,285,576	0	0
San Carlos	7,507,783	7,410,850	(96,933)	8,159
San Mateo	20,526,299	20,526,299	(0)	0
West Bay	1,578,978	1,389,838	(189,140)	10,706
County	2,821,938	2,822,933	995	(47)
SBWMA Total	$79,741,613	$79,705,966	($35,647)	($423)

The over and under payments have been properly accounted for in Recology's 2012 revenue reconciliation. No adjustment is necessary. Whether an agency was overpaid or underpaid, this is the actual cash that was transferred and reflect in the member agencies' surplus/shortfall. Therefore, no adjustment is necessary. However, this over or under payment of fees does contribute to each member agency's surplus/shortfall and helps explain it.

2.5 Review of Cost Allocators

Purpose: Verify Recology has accurately gathered and applied the operating statistics to properly allocate various costs to each Member Agency (i.e., labor costs are allocated among the Member Agencies based on their respective percentage share of annual labor hours, fuel costs are allocated among the Member Agencies based on their respective percentage share of annual route hours, etc.).

For the four weeks ending May 25, 2012, Recology gathered route statistics to determine the number of accounts, number of containers collected, and the actual time spent providing collection services within each member agency. The operating statistics were gathered using Recology's RouteWare system that uses GPS to calculate the amount of time spent in each member agencies service area. Each driver's route is pre-programmed into the RouteWare system. Upon passing each customer's service location, the driver is responsible for hitting a button to indicate a successful collection or that the container was not out for service. This allows the driver to know if they missed any customers when they have completed their route. This also allows the RouteWare system to determine the amount of time spent in each service area as each customer account is assigned to a specific member agency based on their location.

Recology provided us with the Excel spreadsheet which summarized the data from the RouteWare system for the four weeks ending May 25. We verified the mathematical accuracy of the Excel spreadsheet and found no formula errors. We tested the data by comparing the data entered into the

Excel spreadsheet to the system-generated reports from Recology's RouteWare system, without exception.

In addition, we verified that Recology used the collected data correctly (i.e., the percentages derived from the data were accurately applied to the proper cost categories in Recology's 2013 compensation application). To test the proper application, we selected at least one data point from each member agency, covering each service sector (i.e., single-family, multi-family/commercial, and agency services), and covering each line of business (i.e., solid waste, recycling, on-call collection, drop box, etc.).

No variances were found. No adjustment necessary.

2.6 Review of Recology's Allowable 2012 Compensation for Base Services and Unscheduled Services (i.e., Attachment Q)

Purpose: Verify the Revenue Reconciliation report includes Recology's allowable 2012 compensation for base services (in accordance with the Board-approved compensation) and Recology's compensation for providing unscheduled services.

Compensation for Base Services

In October 2012, the SBWMA Board approved Recology's 2012 allowable compensation totaling $53,316,385. Recology's 2012 revenue reconciliation was tied, by member agency, to Recology's 2012 Board-approved compensation, without exception.

We noted in our review that Recology did adjust their compensation in the 2012 Revenue Reconciliation by a net decrease to their compenstion of $15,291, as a result of the following:

- A $31,562 decrease in Hillsborough's Recology-related expenses; to credit Hillsborough for previously purchased (used) residential organic material containers.
- A $6,731 decrease in San Carlos' Recology-related expenses; to credit San Carlos for kitchen containers previously purchased by the city.
- A $23,002 increase to Menlo Park's Recology-related expenses; to provide billing services.

It is our understanding these adjustments were previously approved and **no adjustment is necessary**.

Compensation for Unscheduled Services

Since member agencies' set customer rates for unscheduled service at Recology's approved cost, Recology retains 100% of the revenue collected for the provision of unscheduled or intermittent services identified in Attachment Q except for residential back yard service as described below. Therefore, we tested whether Recology 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.

Figure 2.6a summarizes the total unscheduled services revenue billed by category. "Other" charges include bulky-item collections, returned check charges, etc.

Figure 2.6a

	2012 Revenue from Unscheduled Service ("Attachment Q" Revenue)						
Member Agency	Residential Backyard Services	Commercial Push/Pull Charges	Extra Recyc/ Organic Cart Rental	Extra Pick Ups	Lock Charges	Other Charges	Total Unscheduled Services Revenue
Atherton	$ 33,712	$ -	$ 185,275	$ 1,326	$ 138	552	$ 221,003
Belmont	1,984	56,429	2,772	6,374	9,103	604	77,266
Burlingame	3,683	42,475	3,601	16,054	30,236	681	96,730
East Palo Alto	-	10,954	1,768	2,562	9,353	1,270	25,907
Foster City	-	16,166	171	5,885	6,383	1,031	29,636
Hillsborough	32,260	-	2,254	2,835	46	850	38,245
Menlo Park	-	63,739	16,095	10,806	10,961	1,340	102,941
North Fair Oaks	-	12,196	2,514	5,293	3,437	1,157	24,597
Redwood City	-	-	-	33,452	-	2,072	35,524
San Carlos	2,835	37,423	4,785	13,925	18,639	1,588	79,195
San Mateo	6,731	138,661	8,786	24,918	62,246	23,223	264,565
West Bay	3,756	2,348	6,598	1,749	-	539	14,990
County	3,032	17	6,863	3,603	885	428	14,828
SBWMA Total	$ 87,993	$ 380,408	$ 241,482	$ 128,782	$ 151,427	$ 35,335	$ 1,025,427
Retained by Recology	$ -	$ 380,408	$ 78,097	$ 128,782	$ 151,427	$ 35,335	$ 774,049

We verified that 100% of all revenues for backyard service have been included in each member agencies' gross revenues billed and not retained by Recology. Per the Agreements, Recology only retains backyard service revenues once the total number of residential customers subscribing to backyard service exceeds 20% of all residential customers within that member agencies service area. No member agency has exceeded the 20% threshold required for Recology to retain any backyard revenue.

To verify Recology has billed the approved rates for Attachment Q services, we received a download of all Attachment Q services and randomly selected individual transactions covering all 12 member agencies. In all cases, we found Recology charged the appropriate rates. In some cases, Recology added agency fees to the Attachment Q rates, upon approval from those member agencies.

Recology has calculated and remitted agency fees on all gross revenue (including Attachment Q revenue). During our review of Attachment Q revenue retained by Recology, we found that Recology included the full rate (including agency fees) in the unscheduled revenue retained by Recology (i.e., $774,049 shown in Figure 2.6a). Because Recology has paid agency fees on the Attachment Q revenues, the amount retained by Recology should be net of the agency fees already remitted to the member agencies. The franchise agreements state that the Attachment Q rate revenue is to be retained by Recology. The franchise agreements do not explicitly state that Recology shall retain rate revenues for Attachment Q services net of agency fees; however, in practice, the rates approved by member agencies include an agency fee component that Recology acknowledges (via the calculation and payment of agency fees on all revenue, including Attachment Q revenue.

For example, assume the City of San Carlos has approved a rate of $10.00 for an extra pickup and has a 10% franchise fee. The resident is billed and remits $10.00 for the extra pickup in August 2012. Recology receives $10.00 in gross revenue and Recology remits $1.00 to the City of San Carlos for franchise fees, leaving $9.00 to be retained by Recology. However, the 2012 revenue reconciliation

prepared by Recology assumes $1.00 was paid in agency fees and $10.00 was retained by Recology, thus resulting in a $1.00 shortfall to the residents and businesses of San Carlos to be made up in the following year.

By retaining the full rate for the Attachment Q revenue, rather than net of agency fees already paid, we have estimated **Recology has been overcompensated for providing these services, a total of $110,016 for 2012**. The impact of this is shown, by member agency, in **Figure 2.6b**.

Figure 2.6b

Member Agency	Agency Fees on Attachment Q Revenue
Atherton	$ 2,213
Belmont	16,051
Burlingame	12,765
East Palo Alto	3,764
Foster City	-
Hillsborough	721
Menlo Park	18,908
North Fair Oaks	-
Redwood City	4,280
San Carlos	12,727
San Mateo	38,587
West Bay	-
County	-
SBWMA Total	$ 110,016

2.7 Other Adjustments

Recology's 2012 revenue reconciliation included the following one-time adjustments:

- Re-class $19,602 in commercial revenue (2012) from North Fair Oaks to Redwood City as a result of accounts miscoded as being in the County's North Fair Oaks' service area instead of Redwood City's service area.
- Remove double counting of the $108,105 2011 public schools compensation reduction adjustment. Recology's 2011 revenue reconciliation excluded the 2011 public schools compensation, as well as, Recology's 2012 compensation application.
- Re-class $15,965 in residential revenue (2012) from Unincorporated County to Redwood City as a result of accounts miscoded as being in the Unincorporated County's service areas instead of Redwood City's service area.
- Re-class $62,353 in commercial revenue (2011) from North Fair Oaks to Redwood City.
- Re-class $46,984 in residential revenue (2011) from Unincorporated County to Redwood City.

- Reduction of $52,347 in commercial revenue (2011) from Unincorporated County as a result of accounts miscoded as being in the Unincorporated County's service area, when in fact they accounts are not within the SBWMA service area at all.

In late 2011, County staff identified some accounts which were mistakenly attributed to being within their service areas (i.e., Unincorporated County service area and North Fair Oaks service area). As a result of the mis-classification, the County's 2012 revenue requirement was overstated and other member agencies' revenue requirements were understated. County staff met with Recology staff to quantify the impact and Recology's 2013 compensation approved last year was adjusted to reflect the corrected account classifications.

In March 2012, Recology made the necessary changes to their accounting system to transfer the revenue associated with the mis-classified accounts to the proper member agency (retroactive to January 1, 2012). However, because Redwood City does their own billing, the Redwood City revenue was not able to be adjusted and the parties agreed to handle the adjustment during the 2012 revenue reconciliation. Therefore, Recology made the adjustments summarized above.

HF&H reviewed Recology's one-time adjustments and recommend the following revisions (which are summarized by member agency impact in Figure 2.7 below):

A. Increase the $19,602 commercial revenue reclass from North Fair Oaks to Redwood City to $25,858 (a $6,256 change).

B. Decrease the $15,965 commercial revenue reclass from Unincorporated County to Redwood City to $14,815 (a $1,150 change).

C. Remove the $62,353 revenue reclass from North Fair Oaks to Redwood City for 2011 revenue. The 2011 costs associated with the accounts was not calculated and re-allocated; therefore, the revenue should not be reclassed.

D. Remove the $46,984 revenue reclass from Unincorporated County to Redwood City for 2011 revenue. The 2011 costs associated with the accounts was not calculated and re-allocated; therefore, the revenue should not be reclassed.

E. Addback the $52,347 revenue reclass from Unincorporated County. The 2011 costs associated with the accounts was not calculated and re-allocated; therefore, the revenue should not be reclassed.

F. Reclass $2,876 in disposal costs from Unincorporated County to North Fair Oaks related to member agency facility accounts mis-coded from January to May 2012.

G. Reclass $4,915 in disposal costs from Unincorporated County to Redwood City related to the mis-coded from January to May 2012.

Figure 2.7

	HF&H Adjustments	North Fair Oaks	Redwood City	Unincorp. County	Total
A	Revised Revenue Reclass	$ (6,256)	$ 6,256		$ -
B	Revised Revenue Reclass		(1,150)	1,150	-
C	Remove 2011 Revenue Reclass	62,353	(62,353)		-
D	Remove 2011 Revenue Reclass		(46,984)	46,984	-
E	Remove 2011 Revenue Reclass			52,347	52,347
F	Reclass Disposal Expense	(2,876)		2,876	-
G	Reclass Disposal Expense		(4,915)	4,915	-
	Net Adjustment	$ 53,221	$ (109,146)	$ 108,272	$ 52,347

2.8 Recommendations – Recology Review

Based on our review, as discussed above, we recommend increasing the SBWMA-wide 2012 revenue surplus from $905,369 to $1,873,617 (a $962,248 increase).

Figure 2.8 summarizes each Member Agencies' 2012 HF&H-adjusted revenue surplus or shortfall to be included as an adjustment to Recology's 2014 allowable compensation.

Figure 2.8. HF&H Adjusted 2012 Revenue Surplus/(Shortfall)
(by Member Agency)

Member Agency	Surplus/(Shortfal per Recology's Report	Agency Fee Adjustment	Attachment Q Revenue Adjustment	County Account Adjustments	San Carlos Payment to Recology	Total Adjustment	Adjusted Surplus/ (Shortfall)
Atherton	$ 495,620		$ 2,213			$ 2,213	$ 497,833
Belmont	(669,344)	$ 47,406	16,051			63,457	(605,887)
Burlingame	966,952	-	12,765			12,765	979,717
East Palo Alto	99,492	(3,447)	3,764			317	99,809
Foster City	243,061	-	-			-	243,061
Hillsborough	200,057	-	721			721	200,778
Menlo Park	(66,654)	-	18,908			18,908	(47,746)
North Fair Oaks	(19,845)	(221)	-	$ 53,221		53,000	33,155
Redwood City	1,066,517	-	4,280	(109,146)		(104,866)	961,651
San Carlos	(559,338)	-	12,727		$ 761,253	773,980	214,642
San Mateo	(747,877)	-	38,587			38,587	(709,290)
West Bay	187,547	-	-			-	187,547
County	(290,819)	894	-	108,272		109,166	(181,653)
SBWMA Total	$ 905,369	$ 44,632	$ 110,016	$ 52,347	$ 761,253	$ 968,248	$ 1,873,617
Source:	Recology's 3/31/13 Report	Figure 2.4a	Figure 2.6b	Figure 2.7	Page 7		

SECTION 3. EVALUATE SBR FINANCIAL REPORTING

3.1 MRF Commodity Revenue Review

Purpose: Verify SBR has accurately accounted for and remitted to the SBWMA all recyclable material commodity revenue (including CRV monies received from the State of California) from the sale of recyclable materials brought to the Material Recovery Facility (MRF) by Recology and the public.

3.1.1 Commodity Scrap Revenue Review

SBR is responsible for receiving, processing, and marketing the recyclable material brought to the MRF by Recology and the public. The commodities are sold to third parties at the current scrap value and each transaction is entered into SBR's tracking software, PC Scales. On a monthly basis, SBR remits all commodity revenue to the SBWMA. We conducted a two-step process to verify all commodity scrap revenue has been properly reported and remitted to the SBWMA.

First, we compared the total tons (and associated revenue) sold per SBR's PC Scales report to the amount reported to the SBWMA. From this analysis, we found a discrepancy in February 2012. A load of mixed paper purchased by Ming's Resource Corporation was mistakenly excluded from the amount reported and remitted to the SBWMA. The commodity scrap value was a total of $5,680, of which 83.76%, or $4,758, is attributed to the SBWMA service area (In 2012, SBR began processing material from non-SBWMA service areas). Therefore, SBR owes the SBWMA $4,758 in additional commodity scrap revenue for 2012.

Second, to verify that the PC Scales report reflects the actual tons sold, we selected two months (March and December) and conducted a detailed testing of vendor purchases to verify all revenue received from the sale of the materials was reported for the two months tested. We found commodity scrap revenue received from one vendor, Sims Metal, differed between what SBR's PC Scales system reported and what Sims Metal's records stated as being collected and transported to the Sims Metal facility.

The agreement with SBR allows SBR to retain revenues received from the sale of metals which are removed from the transfer station floor to compensate SBR for their efforts to divert material that was brought into the facility as solid waste by self-haul customers. However, revenues received from metals brought to the SEC through Recology's curbside bulky-item collection and brought directly to the MRF are paid to the SBWMA. To track the source of material, SBR has placed three debris boxes around the SEC to segregate which materials generate revenue to be retained SBR and those revenues to be paid to the SBWMA. To test the accuracy of SBR's PC Scales to verify they have remitted the proper revenue to the SBWMA, we contacted Sims Metals to verify the tonnages they received. Our discussion with Sims Metals found that they separately track the inbound tonnages into the same three categories. We compared two months of data from both SBR and Sims Metals and found that total tons tied; however, the split between MRF tons and Transfer Station tons differed (the bulky item tons tied).

We have estimated the variance between the revenues remitted based on SBR's PC Scales reporting and the revenues that would have been remitted based upon Sims Metal's reporting.

Figure 3.1a summarizes the mixed paper and Sims Metal variances by month**.**

Figure 3.1a

Month	Mixed Paper Variance	Sims Metal Variance	Total Variance
January	$ -	$ 2,111	$ 2,111
February	4,758	1,883	6,641
March	-	1,089	1,088.97
April	-	1,508	1,507.95
May	-	808	808.20
June	-	1,498	1,498
July	-	1,146	1,146
August	-	1,807	1,807
September	-	1,178	1,178
October	-	779	779
November	-	715	715
December	-	1,237	1,237
Total	$ 4,758	$ 15,759	$ 20,517

During our follow up conversations with Sims Metal's, their representative noted that their reporting during 2012 was not as diligent in recognizing the three separate sources as should have been. Therefore, the we are not recommending the $15,759 variance be remitted to the SBWMA due to the inconclusive results of the independent verification of the sources of the metal (i.e., Transfer Station, MRF, bulky-item collection). However, the SBWMA may want to conduct on-site visits to determine where the deficiencies in reporting are occurring.

3.1.2 CRV Revenue Review and Outstanding Balance Review

In addition to the scrap value of the material, SBR receives the California Redemption Value (CRV) from the State of California for processing and recyclable materials. Each month, SBR electronically (using the State's new internet-based "DORIS" reporting system) submits a request to the State for payment of CRV based on the total tons of eligible recyclable material (e.g., aluminum, PET, and glass) processed during the month at the prevailing per-ton rates (which are established by the State). We reviewed SBR's PC Scales material reports and verified they properly prepared and submitted their monthly requests to the State.

We verified that the amount of tons included in their request tied to the reported tonnage volumes from their 2012 annual report, without exception. In addition, we reviewed a report from the State which detailed the payments made to SBR during 2012 to verify all revenue received was reported and

remitted. We found the State underpaid SBR by $8,527 for the tons processed in January 2012. However, upon reviewing payments received in 2013, we found the State remitted the $8,527 in February 2013, which SBR remitted to the SBWMA. Therefore, no adjustment necessary.

3.1.3 Buyback Revenue Review

SBR operates a buyback center at the MRF. The center offers residents and the general public the opportunity to redeem California Redemption Value (CRV) containers. Based on State-set redemption prices, SBR weighs and pays the public for the plastic, glass, and aluminum containers brought to the MRF.

We traced the amounts paid to the buyback customers to verify SBR was weighing and paying the customers the State-approved buyback rates. **We found no discrepancies**.

3.1.4 Self-haul Transfer Station Revenue Review

Purpose: Verify SBR has accurately accounted for and remitted to the SBWMA all gate fee revenue collected from persons delivering self-haul materials to the SEC.

The transfer station receives approximately 6,000 loads per month from the public. Each load is measured by the scale house operator and charged the published per-yard rates for the type of material being delivered. Each transaction is entered into SBR's tracking software, PC Scales. Twice per month, SBR runs revenue reports and remits all public revenue to the SBWMA. To verify all self-haul revenue has been remitted to the SBWMA, we compared the monthly revenue reports to what was remitted **and found SBR mistakenly underpaid the August 2012 gate revenue by $10,000**.

Figure 3.1b

Month	2012 Actual Self-Haul Revenue	2012 Self-Haul Revenue Remitted to SBWMA	Variance
January	$ 301,022	$ 301,022	$ -
February	281,994	281,994	-
March	308,900	308,900	-
April	359,092	359,092	-
May	406,048	406,048	-
June	449,714	449,714	-
July	465,878	465,878	-
August	443,339	433,339	10,000
September	425,201	425,201	-
October	433,030	433,030	-
November	355,382	355,382	-
December	359,496	359,496	-
Total	$ 4,589,097	$ 4,579,097	$ 10,000

3.2 Recommendations – SBR Review

Based on our review, as discussed above, **we have calculated that SBR owes the SBWMA $14,758 for the underpayment of Mixed Paper commodity revenue**.

Figure 3.2

Month	Mixed Paper Adjustment	Self-Haul Revenue Underpayment	Total Due SBWMA
January	$ -	$ -	**$ -**
February	4,758	-	**4,758**
March	-	-	**-**
April	-	-	**-**
May	-	-	**-**
June	-	-	**-**
July	-	-	**-**
August	-	10,000	**10,000**
September	-	-	**-**
October	-	-	**-**
November	-	-	**-**
December	-	-	**-**
Total	$ 4,758	$ 10,000	**$ 14,758**
Source:	Fig. 3.1a	Fig. 3.1b	

DRAFT

Recology San Mateo County
Revenue Reconciliation
Rate Year 2012
Revenue Reconciliation of Gross Revenue

revised 7/18/2013

A. Billed to Approved Contractor's Compensation

		Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County	Member Agency Total
Gross Revenue Billed	$	3,227,369	5,797,844	10,701,485	4,590,885	5,482,627	3,330,702	10,460,225	2,429,902	17,756,627	7,507,783	20,526,299	1,578,978	2,821,938	96,212,664
Current Year Reclassification of Commercial Accounts Revenue	(1)								(25,858)	25,858					—
Less:															
Pass-Through Costs		1,306,016	2,876,486	4,661,052	2,237,759	1,884,246	1,176,684	5,055,350	848,434	7,316,728	3,318,589	9,032,375	470,157	920,692	41,104,568
Unscheduled and Intermittent Services		21,693	59,231	80,282	22,143	29,636	5,264	84,033	24,597	31,244	63,633	219,247	11,234	11,796	664,033
Net Revenue Billed		1,899,660	2,862,127	5,960,151	2,330,983	3,568,745	2,148,754	5,320,842	1,531,013	10,434,513	4,125,561	11,274,677	1,097,587	1,889,450	54,444,063
Contractor's Compensation		1,389,129	3,463,921	4,972,386	2,231,889	3,330,527	1,965,006	5,340,936	1,490,964	9,491,901	4,659,859	12,001,417	911,365	2,067,085	53,316,385
Agency Specific Contract Changes							(31,562)	23,002			(6,731)				(15,291)
Approved Contractor's Compensation		1,389,129	3,463,921	4,972,386	2,231,889	3,330,527	1,933,444	5,363,938	1,490,964	9,491,901	4,653,128	12,001,417	911,365	2,067,085	53,301,094
Surplus/(Shortfall) for Rate Year 2012	$	510,531	(601,794)	987,765	99,094	238,218	215,310	(43,096)	40,049	942,612	(527,567)	(726,740)	186,222	(177,635)	1,142,969
2011 Public Schools Adjustment Deducted from 2012 Compensation		(14,718)	(9,130)	(15,278)	(2,530)		(17,343)	(12,449)	(6,186)	(4,661)	(25,810)				(108,105)
Reclassification of Commercial and Residential Accounts for 2012	(2)									9,900				(9,900)	—
Misc Adjust									(2,876)					2,876	—
Allied Bal Acct											761,153				761,153
Credit for 2012 Staff Reduction	(3)	2,020	5,037	7,230	3,245	4,843	2,811	7,799	2,168	13,800	6,766	17,450	1,325	3,006	77,500
per HFH Audit report 71813: Surplus / (Shortfall)	**$**	**497,833**	**(605,887)**	**979,717**	**99,809**	**243,061**	**200,778**	**(47,746)**	**33,155**	**961,651**	**214,542**	**(709,290)**	**187,547**	**(181,653)**	**1,873,517**
Interest - Income / (Expense)		**$ 31,737**	**$ (38,625)**	**$ 62,457**	**$ 6,363**	**$ 15,495**	**$ 12,800**	**$ (3,044)**	**$ 2,114**	**$ 61,305**	**$ -**	**$ (45,217)**	**$ 11,956**	**$ (11,580)**	**$ 105,761**
TOTAL		**$ 529,570**	**$ (644,512)**	**$ 1,042,174**	**$ 106,172**	**$ 258,556**	**$ 213,578**	**$ (50,790)**	**$ 35,269**	**$ 1,022,956**	**$ 214,542**	**$ (754,507)**	**$ 199,503**	**$ (193,233)**	**1,979,278**

Note: In accordance with the Franchise Agreement, interest is applied to the difference between net revenue billed and approved contractor's compensation. Interest is applied to 50% of the difference during the rate year in which the difference occurred (2012) because the difference occurs throughout the year and to 100% of the difference in the immediately following year (2013) because the difference exists the entire year. The interest rate applied to both years is the prime rate in effect when the SBWMA issued the report for that year plus one percent (1%). The prime rate has been 3.25% since December 16, 2008.

During 2012 Member Agency accounts were reclassified from San Mateo County (CSM) to North Fair Oaks (NFO). Disposal of 104.39 tons and organics of 2.30 tons were moved out of CSM to NFO. The disposal cost effect is $9,391.02 and is included in the 2012 disposal cost. There is no revenue to reclassify. 2013 collection cost of $13,052 will be reclassified from CSM to NFO in the 2013 revenue reconciliation through approved contractor's compensation. Reclassification of the 2012 collection cost of $13,052 from CSM to NFO is reflected in the approved contractor's compensation above.

(1) During 2012 commercial accounts were reclassified from North Fair Oaks (NFO) to Redwood City (RWC). Disposal of 99.08 tons was moved out of NFO to RWC. The disposal cost effect is $8,719.04 and is included in the 2012 disposal cost. Revenue for the period in 2012 before the reclassification is $25,858. 2013 Collection cost of $15,299 will be reclassified from NFO to RWC in the 2013 revenue reconciliation through approved contractor's compensation.

(2) During 2012 commercial and residential accounts were reclassified from San Mateo County to Redwood City. Revenue for the period in 2012 before the reclassification is $14,815. Related disposal cost is $4,915 for a net amount of $9,900.

(3) Agreed upon credit for a 2012 staff vacancy.

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B. Statement of Gross Revenue Billed

	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County	Member Agency Total	Other	Total
Revenues:																
Residential	$ 2,944,513	2,427,058	2,098,993	2,042,292	1,691,012	3,060,068	2,760,565	937,807	9,234,043	2,910,815	5,699,973	1,119,119	2,106,816	39,033,074	—	39,033,074
Commercial and Multi-Family Dwelling	282,856	3,206,074	6,165,144	2,209,010	3,064,411	126,197	6,926,154	1,492,095	7,457,349	3,442,623	12,625,249	459,790	688,566	48,145,518	—	48,145,518
Debris Box		164,712	1,944,903	339,583	727,204		276,428		1,065,235	490,941	1,441,530		26,556	6,477,092	—	6,477,092
Hauling Revenue Adjustments	(528,587)	160,082	(903,655)	(14,348)	(187,311)	(228,963)	85,517	(61,966)	(812,989)	574,376	944,488	(223,404)	211,934	(984,826)	—	(984,826)
Other							78			75	74	69		296	994,121	994,417
Total operating revenues	$ 2,698,782	5,957,926	9,305,385	4,576,537	5,295,316	2,957,302	10,048,742	2,367,936	16,943,638	7,418,830	20,711,314	1,355,574	3,033,872	92,671,154	994,121	93,665,275
RECONCILIATIONS:																
2012 revenue adjustment [1]	$ 544,999	(182,334)	990,194	63,425	222,226	239,037	2,060	91,030	985,835	(525,614)	(763,519)	220,863	(190,658)	1,697,544		1,697,544
2011 revenue adjustment	(5,184)	-	9,785	2,479	13,214	3,593	(18,359)	(1,714)	(10,468)	7,070	(2,125)	(2,930)	(2,605)	(7,244)		(7,244)
2011 (incentives)/disincentives	(11,228)	(35,744)	(96,324)	(51,556)	(48,129)	(13,667)	(69,218)	(27,350)	(162,378)	(55,832)	(178,844)	(7,536)	(18,671)	(776,477)		(776,477)
	528,587	(218,078)	903,655	14,348	187,311	228,963	(85,517)	61,966	812,989	(574,376)	(944,488)	210,397	(211,934)	913,823	—	913,823
Allied Balancing account			492,445			144,437	497,000			663,329	759,473			2,556,684		2,556,684
Rate Stabilization account		57,996										13,007		71,003		71,003
SBWMA Reimbursement of Repairs														—	(76,058)	(76,058)
South Bay Recycling Fuel and Electric Revenue														—	(907,495)	(907,495)
Gross Revenue Billed	$ 3,227,369	5,797,844	10,701,485	4,590,885	5,482,627	3,330,702	10,460,225	2,429,902	17,756,627	7,507,783	20,526,299	1,578,978	2,821,938	96,212,664	10,568	96,223,232

[1] Revenue is recognized on an accrual basis when services are performed. This amount represents the difference between amounts billed and the contractual targeted compensation for services provided.

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C. Statement of Pass-Through Costs

	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County	Member Agency Total	Other	Total
Disposal Fees:																
Residential																
MSW	$ 157,110	300,156	332,513	566,636	291,475	208,439	395,675	244,406	916940.64	398,358	1,124,182	106,330	238,291	5,280,512		5,280,512
Organics	733,491	366,321	468,913	309,763	251,845	404,831	734,114	189,069	1,112,140	560,953	1,261,983	225,581	380,436	6,999,440		6,999,440
Commercial																
MSW	40,949	208,109	680,894	113,752	235,739	18,409	794,947	163,638	1,225,368	487,438	1,176,847	31,603	92,446	5,270,139	44,327	5,314,466
Organics	23,132	39,974	170,258	20,453	152,919	15,329	317,885	38,148	250,193	68,199	261,884		15,133	1,373,507	(43,667)	1,329,840
Multi-Family Dwelling																
MSW		187,855	263,208	230,648	281,878		191,559	72,424	676,609	136,988	931,204	5,423	34,955	3,012,751		3,012,751
Organics		4,238	6,411	7,190	3,531	15,282	11,539	220	13,037	7,381	36,128	9,197	489	114,643		114,643
Debris Box																
MSW		43,278	780,557	117,833	127,147	1,066	47,460		368,405	85,962	407,594			1,979,302		1,979,302
Organics	2,365	778	23,352	885	58,364	491	31,772		74,145	190	1,647			193,989		193,989
City Facilities																
MSW	6,361	14,590	139,010	73,281	42,376	31,337	106,184	15,353	179,924	49,382	165,453	1,829	—	825,080		825,080
Organics	14,665	3,944	69,477	8,984	6,568		84,290	342	66,932	14,593	36,823	1,008	6,196	313,822		313,822
City Self Hauled																
MSW		129,134			35,001				832	12,412	11,891			189,270		189,270
Organics		7,388			7,778				8,679	1,627				25,472		25,472
Total Disposal	$ 978,073	1,305,765	2,934,593	1,449,425	1,494,621	695,184	2,715,425	723,600	4,893,205	1,823,483	5,415,636	380,971	767,946	25,577,927	660	25,578,587
Franchise and Other Fees:																
Franchise Fees	$ 289,943	579,962	724,384	355,798	254,650	317,564	606,863	115,488	2,308,527	616,365	681,544	65,033	132,571	7,048,692	—	7,048,692
Allied Balancing Account														—	—	—
Street Sweeping Fee	24,000	347,977		232,536	87,556					91,596	320,000			1,103,665	—	1,103,665
Management Fee							430,000							430,000	—	430,000
AB939 Fee	14,000	202,986							70,767		862,371			1,150,124	—	1,150,124
Administration Fee			181,096						44,229					225,325	—	225,325
Landfill Closure Fee			253,534				753,347				993,351			2,000,232	—	2,000,232
HHW Fee		62,822			47,419	19,499	52,715	9,346		52,260		11,146	20,175	275,382	—	275,382
Rate Stabilization Fee														—	—	—
Collection Vehicle Fee		144,990												144,990	—	144,990
Litter Control Fee		115,992		200,000										315,992	—	315,992
NDPES Litter Impact Fee		57,996												57,996	—	57,996
Steam Cleaning Fee			75,000							10,000				85,000	—	85,000
Resource Conservation Fee														—	—	—
City Manager Fee										28,900				28,900	—	28,900
Asst City Manager Fee										32,656				32,656	—	32,656
Franchise and Other Fees	$ 327,943	1,512,725	1,234,014	788,334	389,625	337,063	1,842,925	124,834	2,423,523	831,777	2,857,266	76,179	152,746	12,898,954	—	12,898,954
Reconciliations:																
Rate Stabilization Fee		57,996										13,007		71,003	—	71,003
Allied Balancing Account			492,445			144,437	497,000			663,329	759,473			2,556,684	—	2,556,684
Total Franchise and other Fees	327,943	1,570,721	1,726,459	788,334	389,625	481,500	2,339,925	124,834	2,423,523	1,495,106	3,616,739	89,186	152,746	15,526,641	—	15,526,641
Total Pass-Through Costs	$ 1,306,016	2,876,486	4,661,052	2,237,759	1,884,246	1,176,684	5,055,350	848,434	7,316,728	3,318,589	9,032,375	470,157	920,692	41,104,568	660	41,105,228

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D. Statement of Revenue Billed for Unscheduled and Intermittent Services

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	Atherton	Belmont	Burlingame	E Palo Alto	Foster City	Hillsborough	Menlo Park	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County	Total
Revenue Billed														
Attachment Q revenues	$ 55,405	61,215	83,965	22,143	29,636	37,524	84,033	24,597	31,244	66,468	225,978	14,990	14,828	752,026
Less:														
Back yard collection fees	33,712	1,984	3,683	—	—	32,260	—	—		2,835	6,731	3,756	3,032	87,993
Total Unscheduled Services	$ 21,693	59,231	80,282	22,143	29,636	5,264	84,033	24,597	31,244	63,633	219,247	11,234	11,796	664,033

Note: Member Agencies keep the first 20% of backyard collection fees because the cost to service 20% of the customers is included in Contractor's Compensation.
The backyard collection fees are within the 20% threshold and therefore are reduced from the total of Unscheduled Services revenue.