

TO: JOHN MANGINI, SENIOR FINANCE MANAGER, SBWMA
FROM: DAVID STEAD, SENIOR CONSULTANT
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DATE: 8.04.2021

RE: FINAL REPORT, REVIEW OF RECOLOGY SAN MATEO COUNTY RATE YEAR 2022 CONTRACTOR'S COMPENSATION ADJUSTMENT

The South Bay Waste Management Authority (SBWMA) engaged Resource Recycling Systems' (RRS) assistance in verifying Recology San Mateo County's (RSMC's) 2022 Compensation Adjustment Application (CAA) data, in coordination with the Agency's typical annual review process and timing for review. The SBWMA's core refuse collection and processing contractor, RSMC, annually submits a CAA to the SBWMA to apply for increased compensation relative to the previous year based on changes in services provided and inflation indices.

Adjustment of 2021 Compensation to 2022

As prescribed in Article 11 Attachment K, Contractor's Compensation and Rate Setting Process of the Restated and Amended Franchise Agreements, and Attachment N, Contractor Compensation and Operating Statistics, the adjustment of the 2021 compensation to 2022 compensation is predominantly based on each Member Agency's negotiated 2021 compensation, which is further adjusted by the fuel index and service level adjustment. RRS reviewed and verified the following components of the RSMC Contractor's Compensation Adjustment (CCA), noting the final costs and adjustments for Belmont are being separately negotiated and the final adjustment will be included in the final CAA pending the outcome of the negotiating process with Belmont.

RECOLOGY COST OF OPERATIONS BY MEMBER AGENCY

RRS verified the 2021 Annual Cost of Operations and Operating Statistics based on 2021 CCA Attachment N + Single Family Dwelling Additional BIC Cost Allocation as the base cost for each Agency and each service area: Single Family Dwelling (SFD), Multi-Family Dwelling (MFD) and Commercial, and Agency Facilities. The baseline service costs from the 2021 Attachment N for the final adjusted costs for each Agency and Service Category were verified.

The Service Areas include the following Service Categories:

Service Area	Service Category				
SFD	Solid Waste	Targeted Recyclable Materials	Organic Materials (including Holiday Trees)	Two On-Call Collection Events	
MFD and Commercial	Cart and Bin Solid Waste	Cart and Bin Recyclable Materials	Cart and Bin Organic Materials (including Holiday Trees)	Total Drop Box Services (All Materials)	Two On-Call Collection Events
Agency Facilities	Cart and Bin Solid Waste	Cart and Bin Organic Materials	Cart and Bin Recyclable Materials	Total Drop Box Services (All Materials)	Venues and Events – No Data Provided

RECOLOGY INDEX BASED ADJUSTMENT BY MEMBER AGENCY

RRS reviewed all current consumer price index (CPI) indices (Note: Contract Area – San Francisco-Oakland-San Jose Metropolitan Area as stipulated in the Agreement no longer exists) defined in the agreement including:

1. San Francisco-Oakland-Hayward, CA, urban wage earners and clerical workers, not seasonally adjusted.
2. Medical care in San Francisco-Oakland-Hayward, CA, urban wage earners and clerical workers, not seasonally adjusted.
3. Motor fuel in San Francisco-Oakland-Hayward, CA, all urban consumers, not seasonally adjusted.
4. All items in San Francisco-Oakland-Hayward, CA, all urban consumers, not seasonally adjusted.

This review resulted in the following:

- Verified all CPIs.
- Verified all calculations related to adjust increases in costs based on CPI adjustments are accurate and comply with the procedures defined in Attachment K, Contractor’s Compensation and Rate Setting Process for all agencies and agreement protocols for each Service Category for each Agency.
- Verified that all numbers and table in the Rate Year 2022 Application for Contractor’s Compensation Adjustment Narrative dated June 15, 2021, are accurate and consistent with the information provided in all attachments except for those identified in the questions and issues for RSMC.

RECOLOGY SERVICE LEVEL ADJUSTMENT BY MEMBER AGENCY

Per section 7.12 of the Franchise Agreements, Recology conducted its Annual Route Assessment over a four-week period in 2021 for the commercial sector (including multi-family and individual agency facilities) and on April 30, 2021, for single family residential. The Service Level Adjustment to the individual members is calculated over a rolling three-year average compensation process as stipulated in the Amended and Restated Franchise Agreements. RRS reviewed all service levels for each Agency and each service area defined in the agreement:

- Verified Service Level Adjustments based on 2021 SFD submitted by Recology based on the SFD Accounts calculated spreadsheets run on Apr. 30, 2021, and the Commercial Lifts calculated spreadsheet run for the period April 3, 2021 through April 30, 2021. The 2021 data was generated using a query run across all active accounts in the RSMC AS400 data base.
- Verified all calculations related to the adjusted increases in costs from the CPI adjusted cost basis for Service level adjustments for each Service Category for each Agency are accurate and comply with the

procedures defined in Attachment K, Contractor's Compensation and Rate Setting Process for all agencies and agreement protocols.

- All Service Levels for 2019 and 2020 are assumed accurate and verified. RRS verified that the Service Levels in the 2020 Attachment N are equal to those presented in the 2022 Attachment N.

REVIEW OF COMPENSATION ADJUSTMENTS: QUESTION AND ISSUES FOR RSMC

The following is a list of question and clarifications sent to RSMC as part of the CAA review. RSMC provided a response to the questions and comments on July 16, 2021. The RSMC response is provided after each question. RSMC provided an updated Attachment N and provided responses to the SBWMA and RRS Consulting Questions and Comments as noted below.

- Member Agency Cost Increases - Please provide the summary calculations that result in the increased cost for each Member Agency that distributes the cost attributed to the annual CPI index and the service level adjustment as identified starting on page 6 of the CCA and the YOY SBWMA tab in Attachment N. This table would update Table 4 in SBWMA Final Report Reviewing Recology 2021 CCA, which is provided below for reference.

Table 4 from the SBWMA Final Report Reviewing 2021

5354#Wrdc# #P hp eh# Djhqf	Qhjrwdwng# 5354#Rdvh# Frp shqvdwlrq	FSL# Lqfuhdvhv	FSL# (# Lqfuhdvh	Vhuylfh#Ohyhc# Dgmkvwp hqw# Lqfuhdvhv	VOD# (# Lqfuhdvh	Wrdc#Frp shqvdwlrq# Lqfokglqj#FSL#.#VOD	Wrdc# (# Lqfuhdvh
Atherton	\$1,593,158	\$14,808	0.9	\$2,886	0.2	\$1,610,853	1.1
Belmont	\$4,105,137	\$33,702	0.8	\$71,123	1.7	\$4,209,962	2.6
Burlingame	\$6,286,129	\$49,449	0.8	\$59,585	0.9	\$6,395,164	1.7
East Palo Alto	\$2,726,530	\$22,597	0.8	\$23,218	0.9	\$2,772,345	1.7
Foster City	\$3,907,631	\$32,269	0.8	\$12,337	0.3	\$3,952,237	1.1
Hillsborough	\$2,021,219	\$18,809	0.9	\$7,276	0.4	\$2,047,304	1.3
Menlo Park	\$6,608,325	\$56,357	0.9	\$211,967	3.2	\$6,876,649	4.1
Redwood City	\$11,458,072	\$93,842	0.8	\$116,111	1.0	\$11,668,025	1.8
San Carlos	\$5,766,877	\$48,324	0.8	\$79,645	1.4	\$5,894,847	2.2
San Mateo	\$14,255,139	\$114,864	0.8	\$216,813	1.5	\$14,586,816	2.3
West Bay Sanitary Dist	\$1,083,844	\$9,419	0.9	\$13,245	1.2	\$1,106,508	2.1
Unincorporated County	\$2,436,377	\$20,607	0.8	\$19,256	0.8	\$2,476,241	1.6
North Fair Oaks	\$1,977,205	\$16,560	0.8	\$24,213	1.2	\$2,017,978	2.1
Total SBWMA *	\$64,225,644	\$531,608	0.8	\$857,676	1.3	\$65,614,927	2.2

* Excludes Incentive/Disincentive

RSMC Response:

The schedule you requested will be provided as a Source File and submitted via email. RSMC submitted the following table.

2022 Total by Member Agency	Final Approved 2021 Compensation	BIC Route	BIC Route %	CPI Adjustment	CPI %	Service Level Adjustment (SLA)	Service Level Adjustment %	COVID-19 Costs	COVID-19 %	Total Compensation Including BIC Route, CPI, SLA and COVID-19	Total %
Belmont	4,105,136	45,517	1.11%	46,439	1.13%	8,022	0.20%	14,868	0.36%	4,219,981	2.80%
Burlingame	6,395,164	43,894	0.69%	68,605	1.07%	(143,871)	-2.25%	22,508	0.35%	6,386,300	-0.14%
East Palo Alto	2,772,345	35,830	1.29%	29,443	1.06%	10,998	0.40%	10,074	0.36%	2,858,690	3.11%
Foster City	3,952,237	41,491	1.05%	41,699	1.06%	(30,505)	-0.77%	14,155	0.36%	4,019,077	1.69%
Hillsborough	2,047,304	17,238	0.84%	19,820	0.97%	(5,349)	-0.26%	7,349	0.36%	2,086,362	1.91%
Menlo Park	6,878,654	45,799	0.67%	70,855	1.03%	(110,932)	-1.61%	24,327	0.35%	6,908,703	0.44%
Redwood City	11,668,025	118,521	1.02%	123,297	1.06%	21,562	0.18%	42,199	0.36%	11,973,604	2.62%
San Carlos	5,894,847	54,682	0.93%	61,633	1.05%	9,470	0.16%	21,284	0.36%	6,041,916	2.49%
San Mateo	14,592,828	165,639	1.14%	154,856	1.06%	10,679	0.07%	52,799	0.36%	14,976,801	2.63%
West Bay Sanitary Dist	1,106,508	12,121	1.10%	11,217	1.01%	1,003	0.09%	3,998	0.36%	1,134,847	2.56%
Unincorporated County	2,468,225	30,437	1.23%	25,492	1.03%	619	0.03%	8,929	0.36%	2,533,702	2.65%
North Fair Oaks	2,017,978	20,202	1.00%	20,890	1.04%	28,219	1.40%	7,383	0.37%	2,094,672	3.80%
Total SBWMA	63,899,251	631,371	0.99%	674,246	1.06%	(200,086)	-0.31%	229,873	0.36%	65,234,655	2.09%

2. Data Verification - What procedures can verify or audit the development of data outputs provided through query run across all active accounts in the RSMC AS400 data base? Please explain what the criteria were used to run the queries that produced the source data for lifts and accounts, such as open or closed accounts.

RSMC Response:

The SBWMA contracts with a 3rd party vendor to verify data submitted by Recology San Mateo County.

The lifts data is determined by compiling all service levels of active accounts during the data collection period into a work file. A query is then run off the work file to calculate the total number of lifts. The accounts data comes from a query that only looks at active accounts with active services.

The Quarterly Reports submitted by RSMC includes service level data by Member Agency. The service level data includes the count of customers by container size and service frequency. A Gross Revenues and Fees Report by Member Agency is also provided with the Monthly Reports submitted by RSMC.

RRS Response:

RRS suggests Recology attach or obtain a letter of attestation from the Third Party (R3) verifying the accuracy of the data or provide a copy of the Audit Verification Reports from the SBWMA Third Party for last year as an Appendix.

SBWMA should ask for the Customer Service Database, sample the database, and complete a reconciliation during an off-audit cycle (Oct-Nov). SBWMA should further have the SBWMA audit contractor (R3) validate audit sample lifts.

3. Burlingame - Interest Calculation Rate Year 2020 - RRS was unable to confirm that the Burlingame rate was set below the recommended SBWMA level and thus would have interest applied to its shortfall. What was the procedure for calculating that interest based on the rate set below those recommended in the SBWMA?

RSMC Response:

Per the Memorandum of Understanding (MOU) between RSMC and SBWMA (pages 169-170 of RSMC's Rate Year 2022 Compensation Application), Member Agencies that set their rates lower than the rate adjustment recommended by the SBWMA, are subject to interest charges on revenue shortfalls. However, if a Member Agency notifies RSMC by July 31st of its intent to pay the shortfall and makes the payment to RSMC by September 30th, no interest will be paid to RSMC. At the City of Burlingame Council Meeting on 01/07/2019, the Council approved a 6% rate increase for Rate Years 2019, 2020 and 2021. The SBWMA recommended rate adjustment percentage for the City of Burlingame for Rate Year 2020 was 6.9%. This recommendation can be found on the Table titled "TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY", which was included in the September 26, 2019, SBWMA Board of Directors Packet.

Subsequent to the submittal of the Rate Year 2022 Compensation Application, the City of Burlingame paid their 2020 shortfall to RSMC, and per the MOU, there is no longer any interest due. The Compensation Application has been adjusted to reflect the City Burlingame's shortfall payment and elimination of the interest.

RRS Response: RRS verified that the change was made in the Amended Attachment N as submitted on July 16, 2021.

4. Attachment N - Truck Depreciation & Interest Schedule - Please provide calculations. RRS would like to see the calculations that were used to make this sheet. The values shown are consistent with the rest of Attachment N and the Agreement but how those number are calculated is unknown.

RSMC Response: Included in the Source Files are the calculation sheets utilized during the negotiations and subsequently approved as part of the Amended and Restated Franchise Agreements.

RRS Response: RSMC provided the calculation sheets. RRS verified that the calculations are accurate and are represented in Attachment N. RRS recommends that the calculation sheets should be incorporated into the permanent record and included to all reviewers in future application reviews.

5. COVID-19 Project Costs.xlsx - RRS can confirm that the items listed are consistent with the types of costs outlined in the Rate Year 2022 Application for Contractor's Compensation Adjustment document but do not

have anything showing that these costs are approved by SBWMA. Please specify that the line-item Contract Changes to Specific Agencies and the summary tabs of Attachment N is related to the COVID-19 related costs.

RSMC Response:

As an instrumentality, providing essential services to the Member Agencies, and per State and local Health and Safety Guidelines, it was incumbent upon RSMC to purchase and provide PPE and other equipment necessary to continue providing collection services and Call Center customer support.

The line item titled Contract Changes to Specific Agencies and the summary tabs of Attachment N are COVID-19 related costs.

6. Please provide supporting backup for COVID-19 related costs similar to what would be provided for an employee's expense reimbursement. RRS verified the detailed spreadsheet against the invoices

RRS Response: RSMC provided a detail cost spreadsheet identifying all costs associated with the request for inclusion in the cost basis. RSMC also submitted invoices for all submitted costs.

7. Did RSMC receive a PPP loan/grant for the COVID-19 Project Costs related to the Franchise Agreement? If so, provide schedule and terms, and what the monies were used for, including cost and revenue benefits and what percentage was allocated to the SBWMA agencies.

RSMC Response: RSMC did not receive a PPP loan or grant for COVID-19 Project Costs related to the Franchise Agreement.

8. Please explain why the final approved Attachment N from 2021 CCA does not contain an incentive/disincentive amount for the City of Belmont, while the beginning base 2021 compensation in the 2022 CCA includes an incentive/disincentive amount (\$6,848.54) for the City of Belmont.

RSMC Response: The City of Belmont uses a different compensation adjustment methodology than the other SBWMA Member Agencies Article 11 of Belmont's Amended and Restated Franchise Agreement includes a fixed revenue amount for Rate Year 2021 and does not include incentive/disincentive amounts.

The final 2021 presentation for Belmont was an agreed upon presentation. For presentation purposes only in RSMC's Rate Year 2022 Compensation Application, Belmont is shown using the SBWMA-wide compensation adjustment methodology, which includes a presentation of incentive/disincentive amounts.

9. The sub-header in Table D (page 8 of the CCA) references "Shoreway Operations Contract". Could this be restated so not to confuse with the Shoreway Facility Operations Contract?

RSMC Response: The reference to "Shoreway Operations Contract" in Table D has been removed and reflected in the revised Rate Year 2022 Compensation Application.

RRS Response: RRS verified that the change was made in the revised Compensation Application and in Attachment N.

10. Please explain why the number of Multi-Family and Commercial Recycling lifts have increased over 4% from the previous year. Please also explain East Palo Alto's increase of 27% and each of Belmont's and Burlingame's increases of 6%. (Table 5.3 of the CCA)

RSMC Response:

The data collection period for Rate Year 2021 was performed during the COVID-19 Pandemic shutdown, when many commercial office buildings, hotels, restaurants, etc., were closed or offering limited services. The increase in lifts for Rate Year 2022 reflects a data collection period when office buildings, hotels, restaurants, etc., had reopened or were providing expanded services.

Due to the quantity of customers and varying number of containers and lifts per week in all Member Agencies, it is difficult to identify specific customers that contribute to the increase in lifts. For the Cities of Belmont and Burlingame, we were unable to identify any specific customers to attribute to the change in lifts. However, for the City of East Palo Alto, we were able to identify one large commercial account that significantly increased collection services, which greatly impacted the City of East Palo Alto's increase in lifts for Rate Year 2022.

RRS Response: This is a reasonable explanation.

11. Please explain the percentage increase in the Town of Hillsborough's and the City of Redwood City's Multi-Family and Commercial Solid Waste lifts. (Table 5.3 of the CCA)

RSMC Response:

The data collection period for Rate Year 2021 was performed during the COVID-19 Pandemic shutdown, when many commercial office buildings, hotels, restaurants, etc., were closed or offering limited services. The increase in lifts for Rate Year 2022 reflects a data collection period when office buildings, hotels, restaurants, etc., had reopened or were providing expanded services.

For the City of Redwood City, we were unable to identify any specific customers to attribute to the change in lifts. For the Town of Hillsborough, we were able to identify that two schools reduced collection services during the data collection period in 2020, and resumed previous service levels in 2021, which contributed to the Town's increase in lifts for Rate Year 2022.

RRS Response: This is a reasonable explanation.